

PROCEEDINGS

International Economic Conference of Sibiu

16-17 May 2014, Sibiu, Romania

"PROSPECTS OF ECONOMIC RECOVERY IN A VOLATILE INTERNATIONAL CONTEXT: MAJOR OBSTACLES, INITIATIVES AND PROJECTS"

Hosted by
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All the papers of the present volume were peer reviewed by two independent reviewers of The Scientific Committee of the IECS 2014 Conference. Acceptance was granted when both reviewers' recommendations were positive. All papers were presented at the IECS 2014 Conference. The papers of this volume are full responsibility of the authors.

Web: <http://iecs.ulbsibiu.ro>

ISSN 2344 – 1682

ISSN–L 2344 – 1682

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1. Economics of Crises versus Crisis of Economics

IMPACTS OF POPULATION MIGRATION ON THE LABOUR MARKET

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Abstract: *In a world which is constantly moving towards globalization, the global economies cannot be equalized without taking into account the labour force migration, a phenomenon which is typical to all the states in which the free movement of citizens applies.*

In a dynamic economy, labour force migration is a natural phenomenon, which is based on skills and rights of individuals to move freely. This phenomenon has a positive impact both on the country which receives the human capital and the country from which the human capital migrates. However, if the migration phenomenon is not properly managed, it could have negative impacts, especially in countries which supply human capital to other countries. On one hand, these impacts may be demographical, and on the other, they may contribute to income tax losses caused by the state investments in training the human capital which subsequently migrates and which can no longer pay taxes to the state.

Romania is quite hardly hit by the labour force migration, especially in the case of highly qualified labour force. This phenomenon has become quite concerning especially because Romania has developed no qualified youth retention policy and showed no interest in finding a solution to solve this problem.

This paper intends to analyse the situation of labour force in Romania compared to other EU states, as well as the impacts of this phenomenon on the economy and labour force.

Keywords: globalization, migration, emigration, immigration, labour force, employment rate, unemployment

JEL classification: D04, E24

1. Introduction

It is well known that international migration has a certain impact on EU and the member states, and that the increase of migration flows is influenced by globalization and the events which took place at international level. The European area has become a multi-ethnic area with an important cultural diversity and the migration flows have increased both as number and as intensity.

In this context, EU suggested a global European policy aimed to face the migration challenges, which is built on European traditions regarding asylum and migration. This policy takes into account the respect for human rights, the humanitarian issues, but also the benefits for the European Union. Therefore, globalization, with its benefits and opportunities, brings a new global economic interdependence (Șerbu R., Mîrza B., Borza S. 2010).

Integration of migrants in the European society is aimed at creating a balance between their rights and the culture of their country of origin. In specialized literature, there are clear evidences that migration may be favourable for all the parties involved, meaning the sending countries, the receiving country or the migrants themselves. Within the process, the existence of winners and losers cannot be denied, but the net global effect is positive. (Prelipcean G., 2009).

Examples of *benefits* include: facilitation of economic integration and global and regional intercultural dialogue, fulfilling the labour force needs in the developed states and a better use of labour force in the countries of origin, generating monetary flows to the less developed states, facilitating the knowledge and technology transfer to the migrants' countries of origin following their repatriation (Popa Madalina, Ungureanu D., Oneașcă I., 2013).

Among the *disadvantages* of the labour force migration for the country of origin, the following can be pointed out: the loss of investments in human capital by the migration of highly qualified labour force, creation of a labour force deficit in some fields and the possible economic standstill.

2. Labour Force Migration

EU makes considerable efforts to integrate migrants, to fight and prevent illegal immigration, to control the external borders and all these phenomena generate certain costs. The number of assisted persons in the employment field has increased from approximately 10 million before 2010, to 15 million citizens in 2013. From 2010 to 2013, 400,000 new jobs have been created through the support given by EU to small and medium enterprises. In 2012, more than 15 million foreign citizens worked in EU and among them, more than 6 million were citizens of another EU member state, and approximately 9 million were citizens from outside EU (CIEDR, 2013).

Although the Romanian migration, as we know it today, is relatively a recent one, it managed to have an increasing influence on the current Romanian society. Whether it has positive or negative influence, the concept tends to become widespread both at the level of perception and of experience. Today, the international migration is a phenomenon which takes several forms, which has impact and shapes national societies. A significant part of these changing and modelling processes is the transition to the migration behaviour. Until the 1990's, migration was limited at national level, within all the countries of the region. The main type of mobility was the labour circulation, especially towards the main industrial centres.

The international labour force migration was limited and strictly controlled by state governments, especially by imposing border control. Only cases of migration inside the agreements related to family reunification, "repatriation" of persons belonging to ethnic minorities or movements - strictly controlled by the state - of workers to work in a foreign county have been registered. However, from the beginning of the 1990's, the situation has changed: movements, taking different forms which never existed before, had an increased intensity, meaning: labour force migration due to the increased mobility of workers, transit migration, forced migration (asylum and refugees), migration of the family members of workers who left before, migration forced by natural calamities etc.

Labour force migration is strictly connected to the employment level and the unemployment rate. Thus, in EU, the employment level has started to decrease in June 2011, while in some states, the number of job has been diminished considerably (Greece and Portugal).

Until the beginning of the financial crisis, in the summer of 2007, the European Union labour force did relatively well. The employment rate of approximately 68 % of the labour force is close to the 70 % target set at Lisbon, being mainly a result of the employment rate for women and older persons (Burghelea C., 2011).

Romania has an employment level below EU average. Taking into account the EU 2020 employment target of 70 % of persons aged 20-64, we note that we are far from meeting this objective.

Table 1: Labour force employment rate for population aged 20-64 for the period 2007-2011

Indicator	Annual average (%)				
	2007	2008	2009	2010	2011
Total employment rate - out of which:					
EU	69.9	70.3	69.0	68.8	68.6
Romania	64.4	64.4	63.5	63.3	62.8
Employment rate for women					
EU	62.4	62.8	62.3	62.1	62.3
Romania	57.9	57.3	57.3	55.9	55.7
Employment rate for men					
EU	77.8	77.9	75.8	75.1	75.0
Romania	71.0	71.6	70.7	70.8	69.9

Source: Statistical Yearbook of Romania

In May 2013, the number of unemployed was of more than 26 million citizens in the EU state members, out of which 19 million belong to EU which is the only region in the world where the unemployment rate is not decreasing. Then, the EU unemployment rate was of 12.2 % compared to 11.3 % in May 2012, being the highest unemployment rate from the EU establishment. The number of jobs lost in EU after the beginning of crisis in 2008 was of 5 million, out of which 3 million being only in Euro Zone. In 2011, Spain had an unemployment rate of 21.6 %, a number of approximately 458,000 immigrants being also registered. In 2011, Great Britain was the EU state with the highest number of immigrants (567,000 persons), and the unemployment rate was of 8.1 %. In Romania, in December 2013, the unemployment rate was of 7.1 %, and the number of unemployed was of 719,000 persons.

The main indicators related to the Romanian labour market, during 2007-2012 are shown in Table 2.

Table 2: Indicators related to the Romanian labour market, during the period 2007-2012

Indicator	2007	2008	2009	2010	2011	2012
Total population (15-64 years) (1000)	15046.3	15042.2	15028.2	14999.4	14967.5	14928.3
Active population (1000)	9994.1	9944.6	9924.6	9924.6	9868.0	9964.1
Employed population (15-64 years) (1000)	8842.5	8882.2	8804.7	8822.0	8750.0	8885.6
Unemployment (total) (1000)	641	576	681	725	730	701
Unemployment (< 25 years) (1000)	197	177	197	204	210	189
Inactive population (15-64 years) (1000)	5563.6	5584.9	5543.0	5452.7	5487.5	5341.8
Activity rate (15-64 years) (%)	63.0	62.9	63.1	63.6	63.3	64.2
Inactive population (15-64 years) (% of total population)	37.0	37.1	36.9	36.4	36.7	35.8
Employment rate (15-64 years) %	58.8	59.0	58.6	58.8	58.5	59.5
Unemployment rate (total) %	6.4	5.8	6.9	7.3	7.4	7.0
Unemployment rate (< 25 years) %	20.1	18.6	20.8	22.1	23.7	22.7

Source: Processed data from Results of the documented analysis - Employment sector, May 2013

At the level of Romania, statistical data show that the labour force emigration has increased considerably after 2010. According to the data from the last population census, currently, the population of Romania is of approximately 19 million persons, the important loss being caused by the negative growth of population and the phenomenon of labour force migration. The demographic decline is corroborated with the migration tendencies of young population and may have the most drastic consequences if coherent public policies related to migration, demography etc. are not taken into account.

After 1990, Romania was compelled to create a migration management system. Thus, in the first wave, certain social categories have left (engineers, technicians and physicians) in USA, Canada and France. IT operatives, economists and teachers have followed. Lately, we note a massive migration of unskilled or medium skilled labour force.

The main countries in which Romanians work are Italia, Spain, Israel, Germany and Great Britain. Two thirds of the money sent home come from Romanians who left to work in Italy and Spain.

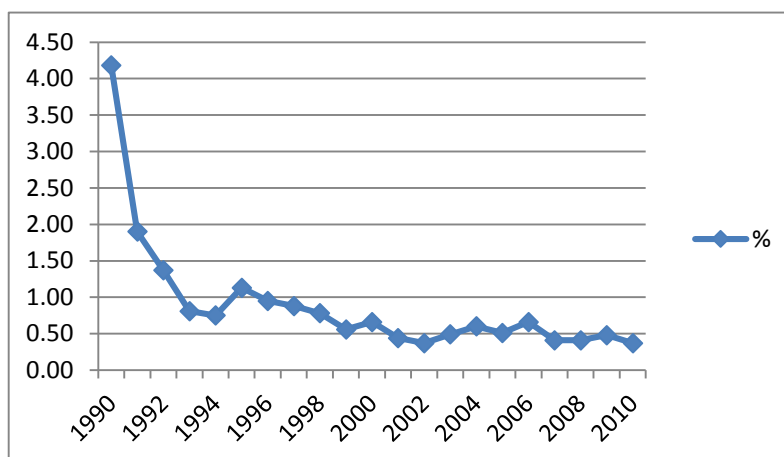
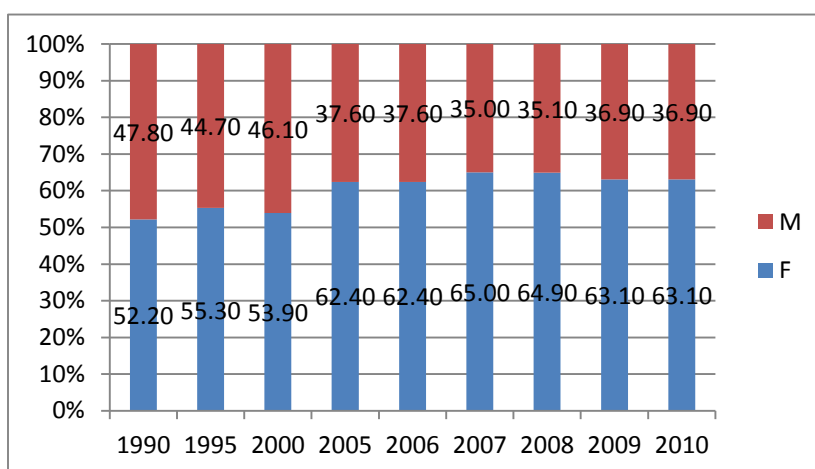
In general, Romanians leaving to work abroad represent a competitive, well-trained labour force. The holders of tertiary education qualifications represent the highest share of emigrants. It can be estimated that the migration phenomenon has contributed to the decrease of the pressure existent on the labour market, because without its existence, Romania would have faced a deeper economic and social crisis reflected on the entire status of the Romanian society. (Ghețu V., 2007).

In Romania, an increase of both domestic and foreign migration has been registered. At domestic level, this increase was specific to 1990, and in the following period, the amount of territorial mobility has decreased considerably. Starting with 2001, the migration flows have been intensified, frequently exceeding 16 % in the economic growth periods.

The beginning of the global economic crisis determined a decrease of population mobility in the first year of economic recession, and then, the extension of the economic decline caused an increase of the economic mobility of the population. Thus, in 2010, it reached a rate of 21.4 %, compared to 15.4 % in 2009. In the 1990's, more than half of the amount of domestic migration was caused by the rural-urban flow, and then in the 2000's, the share of this type of migration started to decrease. Starting with 2001, the movement of population from rural area to urban area and the other way round, from urban area to rural area remained approximately consistent.

The elements which affect the changing of the direction of the migration flows from rural to urban to rural were: restitution of agricultural lands as a result of implementing Law no. 181991 on agricultural real estate, the impossibility of work reintegration for some categories of laid off population as a result of reorganization of some industrial sectors or as a result of privatization.

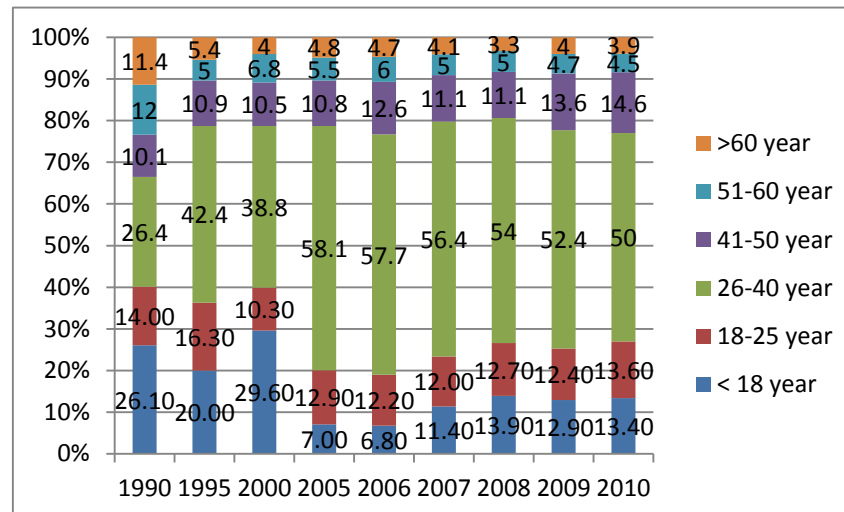
As regards the international migration from Romania, it started in 1990 when 96,929 people have emigrated. During the period 1991-1994, the number of emigrants has declined below 18,000 in 1994, being followed by an increase of more than 25,000 persons in 1995. That year was the year with the largest extent of the emigration phenomenon. During the period 1996-2013, the number of emigrants has declined continuously.

Figure 1: Emigration rate (for 1.000 people) in Romania, during the period 1990-2010**Figure 2: Emigrant distribution by gender**

Emigrant distribution by gender shows that during the analysed period, the external migration of women is predominant (except for years 1992 and 2001, when only 49 % of the emigrants were women). If in the first 10 years, the share of women in the total of persons who emigrated was of 52.3 %, after 2000, the emigration flow is characterized by a high degree of feminization, their share reaching 59.8 %. It can also be noted that the share of women in the total of persons who decided to emigrate is continuously increasing.

As regards the *distribution by age groups of emigrants*, it can be noted that persons aged 26-40 years are the most active from this point of view, and the share of population aged 61 years and more is much lower. During the period 1990-2000, the phenomenon of family emigration occurred, which led to an increase of the share of emigrants under the age of 18. In the subsequent period, this share declined and the share of working age (26-40 years and 41-50 years) population increased.

Figure 3: Emigrant distribution by age groups



Distribution of emigrants by nationalities shows the fact that immediately after regulating the free movement of persons, the other nationalities than Romanian (German, Hungarian etc.) have decided to leave Romania, the ethnical motivation being the main factor for supporting a high level of external mobility by changing the domicile (Constantin, D. L., V. Vasile, D. Preda, L. Nicolescu, 2004).

Thus, in 1990, out of the 97,000 emigrants registered, 62.0 % were of German nationality, 11.4 % Hungarian and 24.6 Romanian. Currently, almost all the emigrants (99.1 %) are of Romanian nationality. Economically, socially and culturally, the departure of the Germans had an obvious local impact, and the social structures of the communities of these localities were deeply transformed.

The main countries of destination for the Romanian emigrants were Germany, USA, Spain, Canada and Italy, but the evolution of emigrant flow by country of destination is different. Thus, if at the beginning of the 1990's, Germany was the main country of destination, and in the 2000's, population emigrates mainly to USA and Canada, currently, the countries of destination are European countries like Germany, Italy and Spain.

In 2011, the main destination of the Romanian emigrants was Germany, with more than 97,000 persons, followed by Italy with approximately 90,000 Romanian emigrants, Spain, with approximately 70,000, Austria with approximately 14,000 and Belgium with approximately 11,000 Romanians.

The biggest Romanian communities are those in Italy, with more than 960,000 persons and Spain, with approximately 900,000 persons. In 2011, in Belgium, there were approximately 40,000 Romanian, and in Austria, approximately 71,000. In Great Britain, in the same year, there were approximately 94,000 Romanian emigrants, and in USA, there were over 500,000, out of which, the number of persons who left in 2011 was 3,000.

During the period June 2009 - June 2013, the highest number of departures were from the North-West area of Romania, representing 36 % of the total, the countries of destination being Great Britain, Germany, Italy, France, Spain and Germany. The sectors in which the Romanian emigrants have been employed were *constructions/improvements, hospitality industry/tourism*.

The external mobility of population analysed by the development regions from which they left confirms the emigration of population from areas where the share of persons of other nationalities is higher or where a lower degree or a higher degree of economic development exists. At the beginning of the 1990's, the main regions from which they left were Centre and Western regions of the countries, and currently, Bucureşti Ilfov region is added (the region which offers important opportunities on the external labour market) and North-East region, which is the poorest region in Romania.

Immigration Status

On the other hand, our country has become both country of origin and country of destination for international migration, but the status is of net emigration country. Also, the number of persons which migrate the national territory in transit has increased, and Romania has supplementary responsibilities related to its position at the Eastern EU border (illegal migration, human trafficking, voluntary migration) (Suditu B.A., 2013).

In the first post-Communist decade, Romania had a relative low level of immigration. Those who immigrated to our country were mostly entrepreneurs, mainly from Turkey, Syria, Jordan, and China.

The economic changes have determined the increase of attractiveness of Romania for the foreign entrepreneurs, but also for other less specialized foreigners.

If in 2000, the number of work permits was 1,580, in 2011 it was of 57,259, and after the first half of 2012, 42,953 EU citizens were residents in Romania. In addition, in 2012, 1,457 persons requested asylum in Romania.

The reasons why immigrants come to Romania are different (jobs, secondment, studies or family reinstatement). At the beginning of 2012, the main reason of immigrants who received long-term visas was family reinstatement (33 %), employment (24 %), and temporary change of a job (15 %) or studies in Romania (13 %).

In 2012, more than 2,400 work permits have been issued, out of which 1,500 for permanent workers, 600 for assigned workers, and 190 for sportspersons.

Some of the advantages offered by Romania to the immigrants are: diploma obtained with lower education costs and which is recognized in the European Union (after graduation, the graduates will search for a job in other EU countries), the cheap force labour and the existence of a market for certain products and services which attract foreign investors, as well as the permissive laws and taxation which offer some facilities.

The **external migration balance** in Romania was in general negative (except for 2001, 2007 and 2008, when a slightly positive balance was registered).

If in the period 1990-2000 there was a tendency to decrease the migratory balance compared to the foreign countries, in the period 2002-2007, the evolution of the negative migration balance was oscillatory, reaching a maximum in 2007, when the difference between the immigrants and the emigrants was of more than 10,000 persons. In the last years, it is noted that the balance of external migration of Romania registers lower values.

3. Conclusions

The conclusions of the study were the followings:

- The declining of European active population (of approximately 10 % until 2050) will also affect Romania (it is estimated that in the same year, it will be of approximately 17 million, our country being placed second to last in EU as regards the decline of population, after Bulgaria)
- The results of 2011 Census show an unexpected large amount of the external migration, which amplifies the degree in which the general demographic numbers are deteriorating.
- Although the exact number of emigrants is not known, it can be assumed that there are 3,5 million Romanian living outside the country
- The phenomenon of migration and the demographic situation of Romania do not represent an isolated case in the European and international context, the countries which are in economic and social transition being also affected by the demographic crisis.
- Romania has become both a country of origin and a country of destination for international migration, but its status is of net emigration country.
- The phenomenon of aging population and the increase of life expectancy are elements which negatively affect the decline of labour force (it is estimated that in 2050, in Romania, the average age of population will be of approximately 50 years, compared to the age of 38.7 years in 2012).
- Although currently there is no clear evidence of the number of Romanians who left the country and work abroad, it is estimated that in 2012, their number was of 3 million
- Another phenomenon which negatively affect the Romanian population is the emigration of higher education young persons which leads to a deficit of talented people which may contribute to the medium term and long term economic growth of Romania and the increase of the standard of living
- As long as an important economic lag exists between Romania and the developed countries, the emigration tendency will not be diminished, and by emigration, an important number of people more of less trained will be lost, temporary or definitive.
- The lack of public policies to support the young graduates which choose to remain and work within the country, as well as the lack of investments for keeping the human capital will lead to an irreparable degradation of the society
- The efficient migration management may have an important role as regards the economic development, poverty mitigation, and the diminishing of local and regional demographic imbalances.

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THE UNCERTAINTY OF ECONOMIC MODELS IN THE AFTER CRISIS ECONOMY

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Abstract: *From time to time in the history of humanity there occur events of such an important significance, events that could mark a change in the day-to-day lives of men and women. One of the agents of this change can now be considered the global financial crisis, as it has become one of the greatest assaults on global economic stability. It is now time to question the economic models so in this paper I will approach the sustainability of the economic models in time of crisis, the microfinance as an alternative for poverty and I will bring up some post crisis economic facts.*

Key words: crisis, economic models, theory, microfinance, macroeconomics

JEL classification: E00

1. Introduction

“When the crisis came, the serious limitations of existing economic and financial models immediately became apparent. Arbitrage broke down in many market segments, as markets froze and market participants were gripped by panic. Macro models failed to predict the crisis and seemed incapable of explaining what was happening to the economy in a convincing manner. As a policy-maker during the crisis, I found the available models of limited help. In fact, I would go further: in the face of the crisis, we felt abandoned by conventional tools. In the absence of clear guidance from existing analytical frameworks, policy-makers had to place particular reliance on our experience. Judgement and experience inevitably played a key role” Trichet (2010)

Seven years after the onset of the global economic and financial crisis the global economy should start to post trend growth of 3 ½% to 4% again in 2014. Following several years in which hopes of an economic upturn have been dashed the interplay of five drivers may finally effect a turnaround for the eurozone economy. The growth is, however, likely to end up being a very modest 1% following a contraction of 0.4% in the current year on account of the deleveraging that still has to occur in the private sector and over the medium term also in the public sector.

Being more than a crisis of credit markets, equity markets, debt markets, this spreading crisis is becoming an employment crisis, which led to a social and political crisis, touching both developed and the developing countries.

Financial markets have suffered the greatest dislocation in our lifetime. Global equity markets have lost approximately US\$32 trillion in value since their peak, which is equivalent to the combined GDP of the G7 countries in 2008. Credit markets have all but dried up, with credit growth at its lowest level since World War II.

2. Questioning the pre crisis economic models

The phase before the crisis put economists into a comfort zone with some commenting that most of the economic ills have been addressed. Robert Lucas, 1995 Nobel Prize winner infamously said in 2003 “central problem of depression-prevention has been solved”, only to realize a near depression kind of situation five year later. Business cycle which is such been a central part of economic theory was seen as non-important with economic growth expected to continue with a few blips on the road.

And whenever there was a blip, central banks would cut rates and problems would be resolved. Possibility of central banks in liquidity trap situation was kept limited for Japan with Japanese policymakers being blamed for the same. People often ask questions (including the Queen of England) on why couldn't economists see or predict the crisis. How could they see the crisis in such an environment?

The crisis of 2007 has created tremors in the economic profession. Just when most thought the field of economics has progressed greatly, it has had to go back to 1930s to pick lessons from Great Depression. In fact the profession is really lucky to have some policymakers who understood the lessons from great depression and acted vigorously to prevent a repeat of 1930s. Yes, the policy intervention has led to many questions, but there is little doubt that without the policies, there could easily have been another depression in world economy.

The real economy is facing one of its toughest periods on record, with the IMF predicting that advanced economies will contract for the first time in 60 years, causing the number of unemployed to rise by 8 million across the OECD. In developing countries, the International Labour Organization predicts that the financial and economic crisis could push more than 100 million people into poverty.

George Soros has said that "the salient feature of the current financial crisis is that it was not caused by some external shock ... the crisis was generated by the system itself". Soros might be right. The current crisis is the culmination of a 30-year domination of economic policy by a free-market ideology that has been variously called neo-liberalism, economic liberalism or economic fundamentalism. The central idea of those theories is that government intervention should be restrained, leaving space to market forces. That idea, in the past years, due to non-regulated markets, has destroyed the capitalism, forcing the government to interfere in order to stop the global panic and try to put the financial system back to his feet.

In order to answer to the questions raised by the financial crisis, we will need the responses of profound questions from the past, such as: why did this crisis became a global economic and social devastation? Two answers of this question have already been established: that financial markets are not always self-correcting nor self regulating.

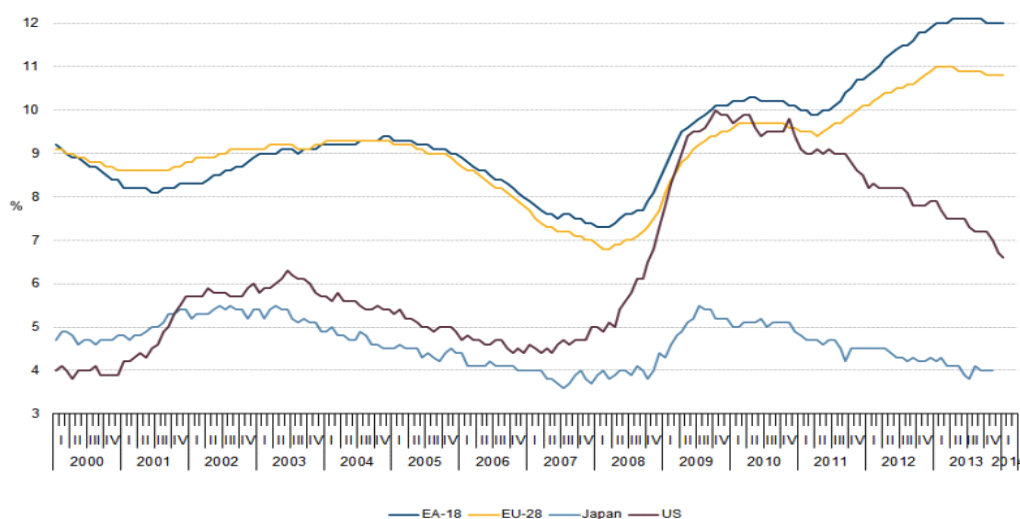
Others have argued that we are seeing a more fundamental regime change: the third in postwar history, starting with the Keynesian model, from the 1940s to the '70s; the neo-liberal ascendancy, from 1978 to 2008; followed by a new regime, which is currently being shaped. Perhaps this new regime will come to be called 'social capitalism' or 'social-democratic capitalism', or simply the term 'social democracy' itself. Whatever the nomenclature, the concept is clear: a system of open markets, unambiguously regulated by an activist state, and one in which the state intervenes to reduce the greater inequalities that competitive markets will inevitably generate.

I think governments are becoming increasingly irrelevant. This will have its advantages, less wars perhaps. And its disadvantages, wages will fall for everyone but the elite. This means living standards will fall. But the deeper I look into what I think is happening the more irreversible things seem to be. Globalisation is not government and it will not be able to identify and reverse the consequences of the jobs and wage drain for the common worker. As living standards fall I expect to see populations fall.

Macroeconomics studies the entire economy, as opposed to the examination of individual markets ("microeconomics"). The question is how much "macro" policies can produce and protect prosperity. Before the 2008-09 financial crisis, there was great confidence that they could. Now, with more than unemployed in Europe and the United States — and recoveries that are feeble or nonexistent — macroeconomics is in disarray and disrepute. There is no comparison between the drop in the US unemployment rate and the slow downward crawl of the unemployment rate in Europe. Of course, the US recovery has been ongoing while the European recovery is nascent. But that is part of the point.

Even now, when the European recovery is supposed to be stepping up and more noticeable in terms of ongoing improvements in industrial production, increases in manufacturing and service sector PMI gauges, and more, the unemployment rate in Europe is still stuck.

Fig. 1: Unemployment rates EU-28, EA-17, US and Japan, seasonally adjusted, January 2000 - January 2014



Source: Eurostat

Looking more closely, the picture is more nuanced. The unemployment figures flatter the U.S. labor market. That is because a major contributor to the fall in the U.S. unemployment rate has been the withdrawal of large numbers of Americans from the workforce. The number of people employed has expanded—though data suggest only in line with the working-age population. But the labor-force participation rate—the number of people both in work and seeking work as a percentage of the total population—has shrunk.

Despite the unemployment, more people actually have a job and an income than in the U.S. as a percentage of the population. There is a lot of variation among nations in the euro zone and high-unemployment economies like Spain and Greece are still a source of anxiety to policy makers. But it is still worth unpacking the differences in the labor markets on each side of the Atlantic.

In the U.S., the sharp drop in unemployment has increased anxieties that the economy will soon reach full capacity and that the small available pool of unemployed workers will start to drive up wages, igniting inflation.

In a century, the economist lived the nightmare of their lifetime 3 times already. The first time was the Big Recession. Since the end of the 19th century, the economists have progressed a lot, economy starts to become a collection of markets-work, capital, goods- that balance through demand and offer effect. This confrontation, in which everybody tries to maximise their interest, is the determinant of prices and quantities, giving birth to a sort of general equilibrium, where the state's only mission should be to preserve the competition. The tough reality from back in 1930 is questioning this representation of an economy, due to lack of explanations regarding a lasting unemployment or a lasting deflation.

The mess comes from John Maynard Keynes, who introduces the notion of bloquages that could prevent the equilibrium, like the unelasticity of salaries and unemployment during the crisis.

In the '50s, American economists from MIT Boston tried to reconcile Keynesian theories with those of a general equilibrium. Among them, Paul Samuelson creates the theory of a “neoclassical synthesis” and a new model called IS-LM. This model will describe the achievement of equilibrium that forms when the monetary market meets the goods market. This model allows to understand the state justified intervention in order to reach the equilibrium, either through public expenses, through interest rate, through unemployment or inflation.

In this “golden age”, the state could easily play with this instruments, as the growth was strong.

But in reality, the un- equilibrium grows reaching a peak in 1973 with the oil crisis. In the US, the land of economists, at that point both inflation and unemployment were over 8% and the state was incapable of handle the situation. The theory is broken. New “micro” bases have to be settled in order to achieve “macro” results. Economists have shove the Keynesian model. Doing rational predictions, notably analysed by Robert Lucas, consumers and producers eliminate the effect of economic policy. The reconstruction takes years, being facilitated by the invention of micro computers. Economic data can now be stocked in databases that could be used to verify if the models are trustworthy describing reality.

Step by step, a new model takes shape. The new “real business cycle” model is now combined with the Keynesian approaches as the elasticity of prices and salaries. This new combination is forming the DSGE model (« dynamic stochastic general equilibrium »). We find the the general equilibrium, that changes from a state to another (« dynamic ») sprinkled with random shocks (« stochastic »).

It is a new “golden age” for the economists, that are considering that the good health of the economy of the year 2000 is due to the “Big Moderation”. The central banks, now economists factories, are massively spreading their models. In an academic paper from August 2008, the head of economy at FMI, Olivier Blanchard said that “the state of macro economy is good”. A month later, a huge economic crisis destroys everything.

The DSGE models were no longer available at shocks. It has to be said that this models are ignoring the banking system, the marginal effects of finance, and they are based on the hypothesis of an economy with only one company, one policy, incapable of handling an inner schock. In July 2010, the Nobel prize winner, Robert Solow is explaining to the American Congres that “the DSGE model has nothing to say” in the economic policy choice.

The crisis showed that the standard macroeconomic models used by central bankers and other policymakers, which go by the catchy name of “dynamic stochastic general equilibrium” (DSGE) models, neither represent the financial system accurately nor allow for the booms and busts observed in the real world.

Today’s mainstream macro models contain a small number of representative agents, such as a household, a non-financial business and the government, but no banks. They were omitted because

macroeconomists thought of them as a simple “veil” between savers and borrowers, rather than profit-seeking firms that make loans opportunistically and may themselves affect the economy.

This perspective has changed. Hyun Song Shin of Princeton University has shown that banks’ internal risk models make them take more and more risk as asset prices rise, for instance.

Small changes in the willingness of creditors to lend against a given asset can have large effects on that asset’s price. Easy lending terms allow speculators with little cash to bid up prices far above their fundamental value. If lenders become more conservative, these marginal buyers are forced out of the market, causing prices to tumble.

Realistically representing the financial sector would help solve the other big problem with mainstream macro models: that they are inherently stable unless disturbed from the outside. This feature is helpful when studying how an economy in “equilibrium” responds to things like a spike in the price of petrol, but it limits economists’ understanding of why economies expand and contract in the absence of such external shocks. Highly leveraged financial firms with portfolios of risky assets are bound to upend an economy every so often. Having banks in models would generate shocks from within the system.

The world’s big central banks are interested in these new ideas, although staff economists are reluctant to abandon existing “industry-standard” models. If any central bank is likely to experiment, however, it is the European Central Bank, thanks to its “two-pillar approach” to assessing the risks of price stability. The ECB pays as much attention to monetary analysis, which includes things like bank lending and money creation, as to economic analysis, which is more concerned with things like inflation and joblessness.

Improving DSGE models is the obvious way to take the lessons of the crisis on board. But others exist too. “Agent-based modelling” tries to depict the transactions that might occur in an actual economy. These models are populated by millions of agents that gradually alter the economy as they interact with each other. The idea was developed in the 1990s when biologists wanted to study the behaviour of ant colonies and the flocking of birds. But modelling an entire economy did not become practical until recently because of the sheer number of calculations needed.

Underlying all modern macro-economic models is the General Equilibrium model. Most of those who had specialised in General Equilibrium theory, up until the 1970s were seriously disappointed as the fundamental difficulties with the approach. As Hildenbrand (1994) who was one of the major General Equilibrium theorists said in his book on Market Demand, (referring to the results of Sonnenschein (1973), Mantel (1976) and Debreu (1974)), « Up to that time I had the naive illusion that the microeconomic foundations of the General Equilibrium model which I admired so much, does not only allow us to prove that the model and the concept of equilibrium are logically consistent (existence of equilibrium) but also allows us to show that the equilibrium is well determined. This illusion, or should I say this hope, was destroyed, once and for all » Hildenbrand (1994).

Is now time for the economists to rethink the models. They will now start to integrate into their models a lot of new actors as the banking system, the financing constraints, mimetic behaviours where the increase leads to increase, like on the stock exchange market. It is going to take them 1 or 2 decades to come up with a new model.

3. Microfinance- an alternative model

The economic and social actual crisis is indeed a time of rethinking the economic models. Some alternatives models are starting to circulate, as the microfinance¹ model.

The decent job is still a dream for million of poor workers: 1,5 milliard people still leave with less than 2 dollars a day. The microfinance is not just another financing category, is not a miniature of the economy, but a financial strategy with a social agenda” (Bernd Balkenhol, Chef of Social Finance at the ILO- International Labor Office). The microfinance is an interesting alternative model that considers in priority the long term rentability, the sharing of profit between shareholders, borrowers and lenders. It takes into account the needs of local community, being a transparent model with a social direction, yet strong and profitable.

According to Balkenhol, one can draw one or two lessons. The idea that finance should serve the real economy, the new mantra of analysts, politicians and media in recent months, is put into practice every day in microfinance for the last 20 years.

¹ Microfinance is a general term to describe financial services to low-income individuals or to those who do not have access to typical banking services

This involves building the capacity of employers and workers organizations to take informed positions on financial policies affecting decent work. It is not to lobby in favor of private interests, but to ensure that the financial sector is firmly and permanently aligned to the needs of the real economy.

The ILO notes that the eligibility of men and women to decent work depends on access of households, workers and enterprises to financial services. "Decent work covers various aspects of the daily lives of poor workers - productive employment , safe working conditions , no child labor, abolition of forced labor, formalization of informal businesses, access to social protection and freedom of association" (Balkenhol).

Microfinance is the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. While some studies indicate that microfinance can play a role in the battle against poverty, it is also recognized that is not always the appropriate method, and that it should never be seen as the only tool for ending poverty.

Formal financial institutions were not designed to help those who don't already have financial assets - they were designed to help those who do. So what do poor people do?

Credit is available from informal commercial and non-commercial money-lenders but usually at a very high cost to borrowers². However, the majority of formal banks do not provide microfinance products as microfinance is an expensive enterprise - you can make a lot more money on a large loan than a small loan, and you won't make much money holding savings accounts with very little funds in them.

According to CGAP³, studies have demonstrated that microfinance helps very poor households meet basic needs and protect against risks; The use of financial services by low-income households is associated with improvements in household economic welfare and enterprise stability or growth. By supporting women's economic participation, microfinance helps to empower women, thus promoting gender-equity and improving household well-being.⁴"

Poor people, with access to savings, credit, insurance, and other financial services, are more resilient and better able to cope with the everyday crises they face. Even the most rigorous econometric studies have proven that microfinance can smooth consumption levels and significantly reduce the need to sell assets to meet basic needs. With access to microinsurance, poor people can cope with sudden increased expenses associated with death, serious illness, and loss of assets.

The socio-economic impact of microfinance in the world, is that the households that have access to microfinance spend more on education than others. The clientele of microfinance is overwhelmingly female. It is widely recognized that microfinance has enabled women to gain their independence by contributing more to household income, valuing their property and having control over the decisions that affect their lives.

4. The after crisis time

The economist profession, which bears a heavy intellectual responsibility in the crisis, so far escaped criticism. Yet, only few economists warned the world against explosion of the housing bubble in the United States and the impact of this explosion. Except some personalities such as Roubini and Shiller, few have seen the crisis arise. Faced with this guilty silence, we must also question the analytical capacity and especially their models to manage the pre-crisis.

One of the major goals of economic models is to simplify the complexity of the economic reality . It is up to economists to retain only essential and relevant relationships of this reality in order to build a model that explains the best the observed data. Therefore, models have become mandatory in the analysis of economic phenomenon and in decision making.

Central banks around the world are highly dependent for their decision on the macroeconomic models and this for many years already. I will not go into the details of these models, but one thing is clear: after the bursting of the bubble in subprime loans these models are incomplete and provide only a very imperfect representation of the financial world and its mode of operation. Most of these patterns - which are the reflection of the thought of their creators - take as an assumption the market completeness (there is a price for everything at any point of time) , neglecting the role of financial intermediaries (and therefore unaware of their financial structure) and grossly misunderstand the crisis liquidity . The recent financial crisis has unfortunately highlighted assumptions simplifying these models. The freezing of transactions led

² <http://www.cgap.org/about/faq>

³ CGAP (the Consultative Group to Assist the Poor) is a global partnership of 34 leading organizations that seek to advance financial inclusion

⁴ <http://www.uncdf.org/en/financial-services-for-the-poor>

to a liquidity crisis (which in fact was a sudden and sharp increase in liquidity preference) that was never taken into account in models of central banks. Similarly, ignorance in the macroeconomic models of the role, if not the existence of financial intermediaries, has obscured the risk of an indebted banking and para-banking⁵ system.

For example, the standard dynamic general equilibrium model used by central banks, considers only one representative agent and does absolutely not take into consideration any financial intermediation⁶.

Even if recent researches (Curdia and Woodford, 2009) are trying to incorporate in the monetary models different interest rates, different heterogenic agents, they are far from creating a trustworthy model that could face the institutional constraints. I will note though a few encouraging stirrings in the incorporation of the banking sector, and its capital constraints in the mechanism of the monetary policy transmission⁷.

Both macro-economists and financial economists have had the weakness to believe in recent decades that markets are efficient and could regulate themselves. These beliefs were found transcribed in models used by economists in both central banks and commercial banks. Too little attention has been paid to the actual functioning of the markets and irrational behavior of financial agents while they carry the seeds of crises and speculative bubbles that may have serious repercussions on the economy of our societies.

We cannot and we will never ignore economic models in the decisional process, but the models need to start better reflecting the economic and social reality. Nevertheless, the model will always be just a simplified, imperfect representation of reality.

It is remarkable that reasonable economists, when assigned to think about public policy, quickly lose their grounding. When looking at the health of a firm, they would look at its cash flows and its balance sheet – assets and liabilities. But when it comes to the government, they only look at liabilities. One can't help thinking that these blinders are political in nature: by reducing debt, they hope to force (in times such as these) cutbacks in social spending. There is a more rational economic response: increasing investments, even if debt financed, can improve the nation's overall strength and even reduce the medium-term debt/GDP ratio.

For countries such as the US with a backlog of high return investments and with the ability to borrow at close to zero interest rates, government tax revenues will increase far more than the interest that will have to be paid, so debt will be lower and GDP higher. With a lower numerator and a higher denominator, economic growth is more sustainable

At a time when Milton Friedman seems much more deeply buried than John Maynard Keynes (but it was probably buried a little prematurely), the society must absolutely take steps to resolve this unprecedented crisis but also to prevent not to reproduce. The financial world can certainly no longer find itself in control of the planet as it has been for thirty years and it will be a must in future to better regulate markets or make better use of the existing regulations.

The moment when everyone was a Keynesian economist has now passed. There was even a moment when Alan Greenspan would cast doubt on the viability of the notion of self-regulated markets. Financial markets are demanding a return to the old ways and, as fiscal debts have increased, to consolidations – which almost always entail cutbacks in services vital to working men and women. And in a world with already high levels of unemployment, the austerity they demand will imply even higher levels of unemployment; and that in turn will put downward pressure on wages;

5. The yet to achieve recovery of the economy

US economy, the sector that triggered the global financial crisis has undergone the most extensive cleaning-up. There has been a turnaround in the real estate market, with house prices in conurbations rising at double-digit percentage rates. Combined with booming stock markets this has helped US households make major progress in their financial recovery. In the fiscal clinch, which with automatic spending cuts (sequester) as a kind of collateral damage has considerably reduced the budget deficit in 2013, a more moderate tone seems to be emerging. Also, the Fed's recently announced start of the exit from its securities purchasing programme ("tapering") in January should occur without any major problems as it has already been priced in. We therefore expect the US economy to continue picking up pace in the course of 2014 and to grow by 3.2% for the full year compared with 1.8% in 2013.

⁵ Para banking= shadow banking sector

⁶ Woodford, 2003 and Christiano et al., 2005

⁷ Meh et Moran, 2008, Goodfriend et McCallum, 2007, Canzoneri et al., 2008

Reforms are driving Chinese growth above 8%. The extensive reforms passed in November are likely to curb state influence on companies and the financial system and thus boost the efficiency of the economy considerably. In the remaining emerging markets, too, growth is likely to pick up further in 2014, even though the high medium-term growth expectations have been revised downwards substantially in many cases.

Fiscal policy in the eurozone are generating little drag. The ECB's commitment to provide potentially unlimited support (OMT) in the problem countries has slowed the pace of fiscal consolidation slightly. In 2014 the structural deficit is likely to be trimmed by only about $\frac{1}{4}$ of a percentage point of GDP. This means, however, that eurozone debt will not start to decline until 2015 at the earliest.

Progress towards banking union is been done. Individual countries have made progress in consolidating their banking systems, in no small measure with an eye on the ECB's comprehensive assessment of their major banks in 2014. This could relieve the pressure on banks to boost their capital ratios, which should also lead to a stabilisation of lending. This would further attenuate the negative cyclical impact of fiscal policy.

Even though the chances of a recovery appear much better, it should not be forgotten that the global economy posted about $\frac{1}{4}$ of percentage point weaker growth than we forecast for both 2012 and 2013. The rise in bond yields triggered by the change of tack in US monetary policy could turn out to be much more pronounced than we forecast. This could lead to problems especially for emerging markets where credit volumes have grown significantly in recent years. But in Europe, too, besides the vagaries of the comprehensive review of the European banking system by the ECB and EBA the political developments in many member states hold considerable potential for disruption. Best wishes for a happy and successful 2014 are thus very much in order.

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THE INFLUENCE OF LABOR MARKET ON WAGE

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Abstract: *The economic activities are based on labor, whose role is to capitalize on the other factors of production. The general condition for any economic activity is labor. The meeting point of the labor demand and supply forms the labor market. Labor demand comes from those who need and want to employ payable workforce. Labor supply is launched by those who want to occupy a job in the labor market and get paid for it.*

Keywords: job, labor market, demand, supply, wage

JEL classification: D9, E2, J3, J4

The relations established between those who represent the demand and those who represent the supply of labor occur under certain conditions regulated by law, while the negotiation of both wages and working conditions is officialized by a labor contract.

“Labor market can be defined as the place where labor services are exchanged and those negotiations occurring between buyers and sellers partly determine the placement of workers in jobs with specified wages, benefits, and conditions of employment.”⁸

The possessors of capital and those possessing the skills negotiate based on the principles of market economy and the specific legal regulations. On the labor market, unions and patronage play each an important role, namely, unions as labor force suppliers and patronage as labor force demander.

1. Labor market – general concepts

Labor market can be defined as a ***“meeting point, in space and time, on the overall or structurally, between the labor demand and the labor supply”⁹***.

With a dynamic and complex content, the labor market is characterized by its components and influence factors as well as by the segments that form it.

The components of the labor market are the following:

- *Suppliers* or *sellers*, namely those offering the labor force in exchange of a price;
- *Buyers*, namely those who need the professional skills of the labor force and who want to pay a wage in exchange;
- *Intermediaries*, namely private individual and/or legal persons interposing between offerers and buyers, asking for a commission in exchange of their intermediary service.

As it concerns the factors influencing the domestic labor market we remind the following:

- evolution of GDP and increase in the industrial, agricultural and service production, respectively;
- increase in trade, money circulation and credit;
- reorganization of the national economy and the emergence of new fields of activity due to technical and scientific progress;
- evolution of labor productivity, etc.

At the same time, the evolution of the international labor market depends on the following factors:

- irregular economic development of countries;
- remuneration and different living conditions;
- size of investments in each country;
- international capital movement;

⁸ Gheorghe Pîrvu, *Macroeconomie*, Editura Universitaria, Craiova, 2004, p. 74.

⁹ Ion Ignat, Ion Pohoată, Gh. Luțac, Gabriela Pascariu, *Economie Politică*, ediția a II-a, Editura Economică, București, 2002, p. 255.

- economic policy embraced by countries receiving high-qualified labor force, etc.

In economically advanced countries, there is a trend for labor market segmentation based on the increase in social labor division, demand and supply variations, trade union degree of organization, etc.

Under these circumstances, the following market segments are emphasized:

- *Primary market* – characterized by employment of the workforce in large enterprises where productivity and wages are high and jobs are secure
- *Secondary market* – characterized by employment of the workforce in small enterprises confronted with a stiff competition, with no unions, small and unstable wages and insecure jobs.

2. The labor force – demand and supply

On the labor market, there is a confrontation between the demand and supply of labor force.

The resources of labor represent the source that determines the flow of the labor supply. They are in fact the most numerous and most important part of the total population of a country, consisting of persons who, thanks to their biological, physical and intellectual characteristics can participate directly and permanently in a useful economic and social activity.¹⁰

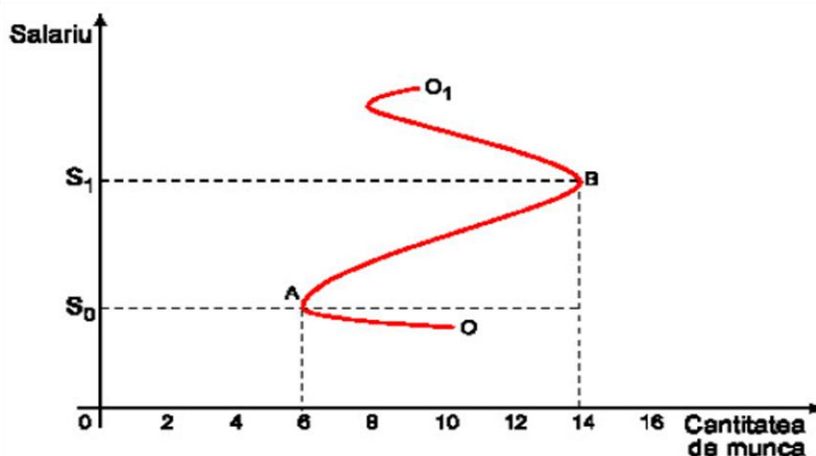
The supply of the labor force includes that part of resources that demand for a paid workplace. The supply of the labor force does not include housekeepers, students or other persons that do not carry out remunerated activities. It is represented by the number of people able to work or the available population from which we exclude the “stay-at-home” population, students and those who do not want to engage in remunerated activities.

The level of the labor supply is different in time and space under the influence of certain factors such as:

- Wage increase;
- Ratio between utility and disutility of labor;
- Wage opportunity;
- educational and professional training system;
- length and content of labor;
- employment security.

An atypical behavior of the labor supply in relation to wage (labor price) can be seen in the following figure:

Figure 1: Atypical evolution of the labor supply



Source: <http://conspecte.com/Macroeconomie/piata-muncii.html>

The income effect – is the argument according to which a person substitutes work time for free time when the wage reaches a level that provides the possessor of labor with a standard of living closely connected with his aspirations. The income effect points out the idea that a person has a higher purchasing power as a result of certain revenues that give the possibility to buy more goods, including free time.

The substitution effect – is the argument according to which a remunerated person substitutes some of the free time for additional work time with the benefit of receiving a higher income. While the hourly

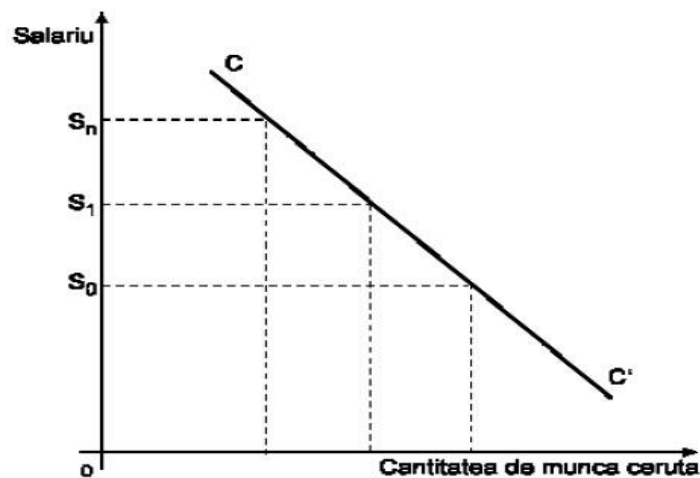
¹⁰ Daniela – Luminița Constantin și colab., *Resursele umane în România. Mobilitatea teritorială.*, Editura ASE, București, 2002, p. 12.

pay increases, more extra work hours must be invested, but each free hour implies a greater sacrifice. If the income effect stimulates a person to work less, the substitution effect acts oppositely, stimulating the person to work more. The shape of the individual labor supply curve is determined by the relative size of the two effects.

The labor demand is represented by the quantity of labor force structured in terms of profession and training degrees, necessary for enterprises, branches and sub-branches of the national economy to achieve a determined quantity of goods and services demanded by the market. On the labor market, there is a manifestation for both the individual labor demand, that is the demand for each job, and the total labor demand, represented by the labor demand in all professions, specializations and qualifications at the level of enterprises, branches, sub-branches as well as at the level of the economy.

The labor demand is considered a derived demand because it is the result of investments that represent the effect of the demand for economic goods. Hence, this is the explanation why there is a correspondence between labor demand and jobs.

Figure 2: Labor force demand curve



Source: <http://conspecte.com/Macroeconomie/piata-muncii.html>

Labor demand changes because of the change in prices as well as of fluctuations of the demand for economic goods. It also presents an elasticity that depends on the particularity of certain economic goods to be substituted. The demand elasticity represents an important criterion regarding the process of decision-making with respect to setting wages.

Labor demand is influenced by different factors:

- increase in the production of certain producers' and consumer goods or all economic goods;
- increase in the level of wages;
- increase in work productivity;
- correlation between work productivity and demand for goods;
- level of economies (investments).
-

3. Variation of minimum wage in the EU member states

The minimum wage set by the national legislation varies among the EU member states but also within the euro area.

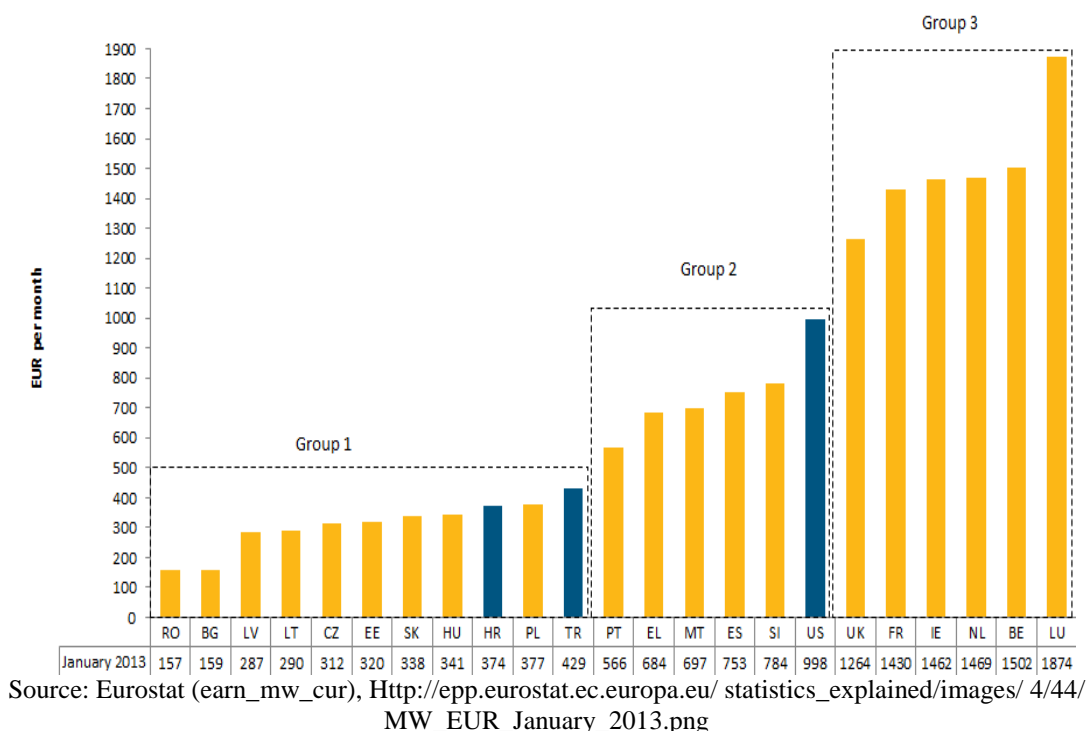
At national level, the basic minimum wage is represented by an hourly, weekly or monthly remuneration, being imposed by law, after having consulted social partners or directly through national intersectoral agreement.

Minimum wages are represented by gross sums, that is to say, before the taxation on income and national insurance contributions. Deductions vary from country to country and so the minimum wage is regulated after having consulted with social partners or through intersectoral agreement at national level.

In 20 of the 27 member states of the EU (Belgium, Bulgaria, the Czech Republic, Estonia, Ireland, Greece, Spain, France, Latvia, Lithuania, Luxembourg, Hungary, Malta, Holland, Poland, Portugal, Romania, Slovenia, Slovakia and United Kingdom), along with Croatia and Turkey, the minimum wage in January 2013 was established either by collective or intersectoral agreement.

As we can notice in figure no. 3, the minimum wage varies from 157 euros in Romania, 159 euros in Bulgaria to 1874 euros in Luxembourg.

Figure 3: Minimum wage in UE-27, in Croatia, in Turkey and in USA, January 2013, in EURO



In figure no. 3 we find the minimum levels of wages (January 1 2013), expressed in euros within the EU-27, Croatia, Turkey and USA. In our graphic representation, the 20 member states of the EU, along with Croatia, Turkey and USA have been divided into 3 groups taking into consideration the level of the minimum wage on 1st of January 2013.

The first group included countries with the lowest minimum wages, ranging between 100 and 500 euros per month and namely: Romania, Bulgaria, Latvia, Lithuania, Czech Republic, Estonia, Slovakia, Hungary, Croatia, Poland and Turkey.

As it concerns the 2nd group, this was represented by Portugal, Greece, Malta, Spain, Slovenia and USA, the minimum wage varying between 500 and 1000 euros/month.

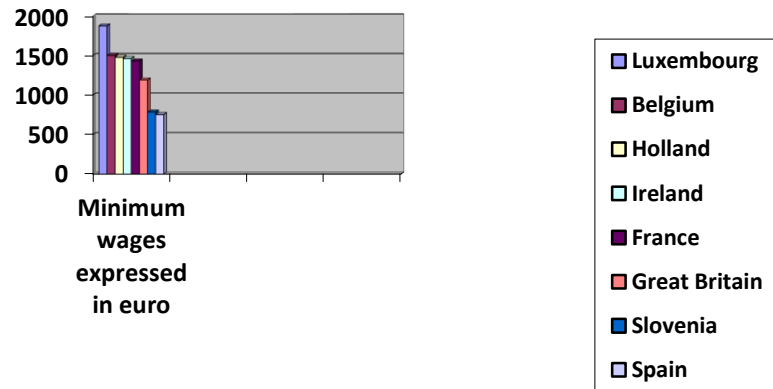
The minimum wage above 1200 euros/month was registered by the third group which comprised some of the EU member states: Great Britain, France, Ireland, Holland, Belgium and Luxembourg.

According to data supplied by Eurostat on July 1 2013, the minimum wage ranking was the following:

Table 1: Minimum wage ranking (July 1, 2013)

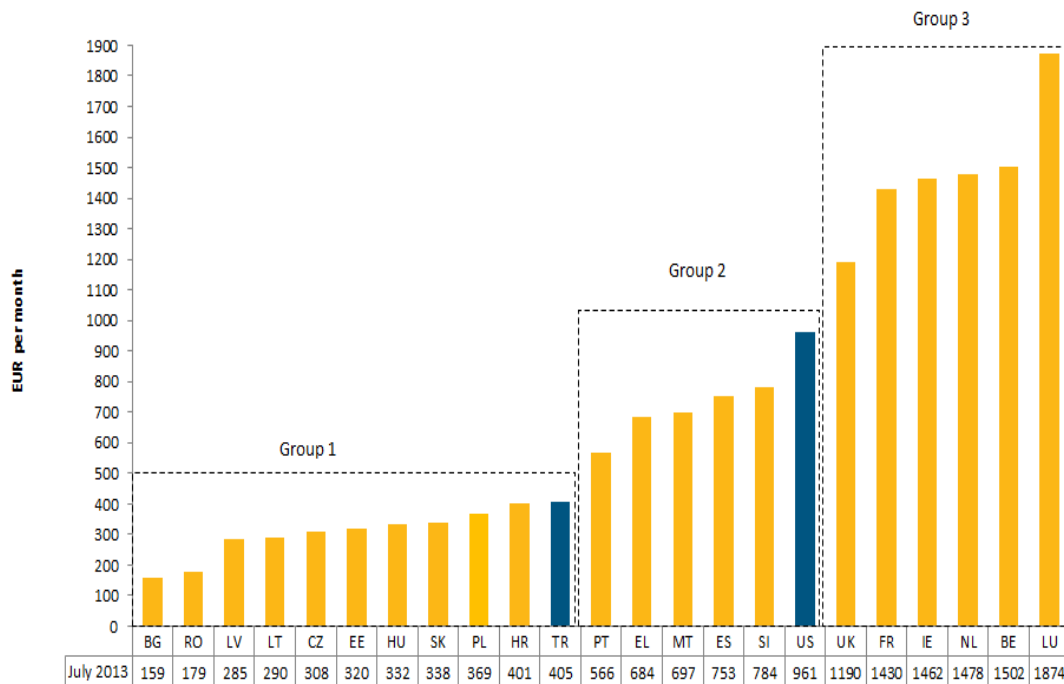
No.	Countries	Minimum wages expressed in euro
1.	Luxembourg	1874
2.	Belgium	1502
3.	Holland	1478
4.	Ireland	1462
5.	France	1430
6.	Great Britain	1190
7.	Slovenia	784
8.	Spain	753

Source: Eurostat, July 2013

Figure 4: Minimum wage ranking (July 1, 2013)

Source: Eurostat, July 2013

As it regards the minimum wage, Romania has the lowest minimum wage in the EU, calculated in terms of purchasing power parity, according to data supplied by Eurostat, in July 2013. According to Eurostat, the ranking of minimum wages in nominal terms places Romania on the 26th position (out of 27), with a gross minimum wage of 157 euros per month.

Figure 5: Minimum wage ranking in nominal terms

Source: Eurostat, July 2013, <http://cursdegovernare.ro/topul-eurostat-romanii-au-cel-mai-mic-salariu-minim-caputere-de-cumparare-din-uniunea-europeana.html>

According to the quoted source, Romania is ranked 27th with 157 euros/month and Bulgaria 26th with 159 euros/month if taken into account the purchasing power of the minimum wage. As it concerns the minimum wages recorded by Romania and Bulgaria, the latter has a certain advance in terms of net revenues as a result of the fact that the Bulgarian authorities collect much lower taxes. For instance, in Bulgaria, national insurance contributions on the part of the employee account for 9,7% of the income, 3,2% of the income goes to health insurance premiums and a percentage of 10% is the income tax. On the other hand, in Romania, national insurance contributions on the part of the employee account for 10,5%, another 5,5% goes to health insurance premiums, while the income tax accounts for 16%.

Another question mark that hangs over Romania is also the fact that although it entered the EU on July 1st 2013, Croatia reported a gross minimum wage of 401 euros, which in terms of purchasing power parity means 557 euros.

Eurostat draws the conclusion on a 1:12 ratio between the lowest and the highest minimum wage registered in the EU in nominal terms, while with respect to purchasing power the ratio is 1 to 5.

We also want to point out that the ranking includes only 21 member states of the EU as for the other states there are no regulations on a stated minimum wage.

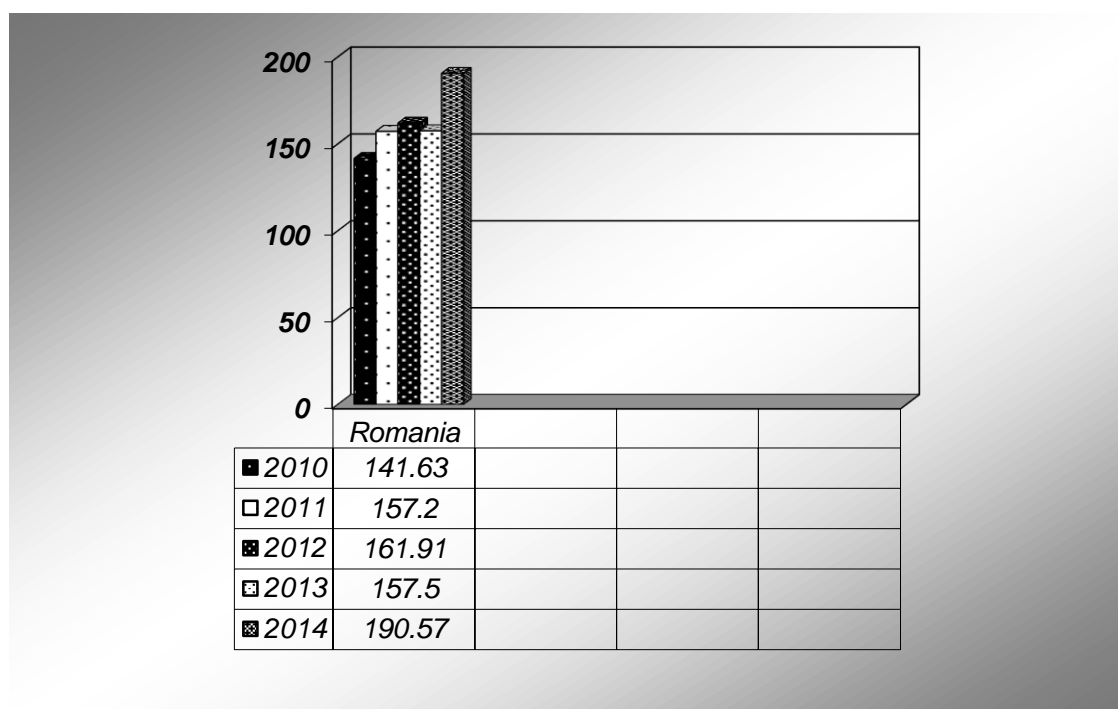
With respect to Romania, the minimum wage has fluctuated over the years according to data supplied by Eurostat, and this fact is made visible in the following table:

Table 2: Minimum wage in Romania

Date	Minimum wage in Romania
1 Jan. 2010	141.63
1 Jan. 2011	157.20
1 Jan. 2012	161.91
1 Jan. 2013	157.50
1 Jan. 2014	190.57

Source: Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en

Figure 5: Minimum wage in Romania 2010 – 2014



Source: Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en

4. Conclusions

The labor market is not a perfectly competitive market. If this was to happen, the occupational mobility would be complete and would trigger permanent movements of labor depending either on the highest level of wage or better work conditions. The labor market is segmented depending on occupational and professional criteria and in this respect we can say that workers belong to certain categories of persons among which there is no competition for workplaces that require certain qualities and special aptitudes, in other words they belong to non-competitive groups.¹¹

¹¹ Philip Hardwick, John Langmead, Bahadur Khan, *Introducere în economia politică modernă*, Editura Polirom, Iași, 2002, p. 369.

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BEHAVIORAL APPROACH OF LABOR MIGRATION PHENOMENA

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Abstract: *For the accuracy of the description of the behavior of the decisions taken, should be noted that the environment is valued differently by individuals. Namely these appreciations determines their behavior. Migration decision must be analyzed as a continuous and gradual process of maximizing the individual by wage expectations. The role of networks, especially for immigrants, is known. Although networks play an important role For all bedding population regarding Information dissemination and search jobs for immigrants they become critical. This paper presents the segmentation of the migration process from the perspective of the individual investment.*

Keywords: behavior of migrants, decision making process, bounded rationality, investments.

JEL classification: F22, J11

1. Introduction

Migration processes have marked all the recent economic history of development. After the first major wave of emigration (referring to modern history) in the period from 1875 to 1925 went to the U.S. they followed continuously. Contemporary period presents a picture in permanent development of this phenomenon. The main areas are containers - European countries, North America and Australia. Currently, virtually all countries are involved in the complex process of external labor migration, integrating a general process either as countries of destination, either as countries of origin or transit, but in all cases they are influenced by this phenomenon economically, socially and politically. Globalization has promoted new movements in the international area, and among the most important are the relatively free movement of people, goods and capital. The role of immigration processes yet to be reviewed - they are a product of globalization, but claims to be a promoter of the internationalization of economic life. Among the areas of the world most affected by migration flows, include the European Union. "Despite the general dominance of third country nationals in EU15 (which is the result of long-term developments over many decades), the large inflow from the Central and Eastern European members becomes evident from absolute numbers, focusing on inflow to the key host countries"¹². Given the extent of this phenomenon and its impact on social and economic processes in the contemporary world, we set a goal to outline some aspects that influence migration decisions.

2. The notes of some similar research

For accuracy of the description of behavior, decisions need to consider the fact that the environment is appreciated by different individuals. Namely these assessments determine their behavior. Note that decisions shall be taken in accordance with the information incomplete and imperfect on the real situation in the country of destination (McCall and McCall, 1987).

Considering that migrant decisions, following rational economic behavior, accept that it takes into account the economic value of a string of situations and events. Migration decision must be analyzed as a continuous and gradual process of maximizing the individual by wage expectations. The decision is taken then, when expectations exceed a predetermined level (Burda, 1995). The decision to migrate is comparing job abroad with local market conditions. So migrants compete with each individual report based on expected salary versus working conditions in the country of provinienta (Jackman and Savouri, 1992).

Shows an interest approach (Sjaastad, 1962) migration as a human capital investment. Even, migration has all the features of an investment: certain expenses and gains currently uncertain future. Reimbursement will depend on the length of migration, the discount rate and expected salary flows diminished wages in the home. But it would be unfair to limit ourselves to the principles of rational economic behavior. Migration in uncertain conditions is accompanied by risks, sometimes significant. The

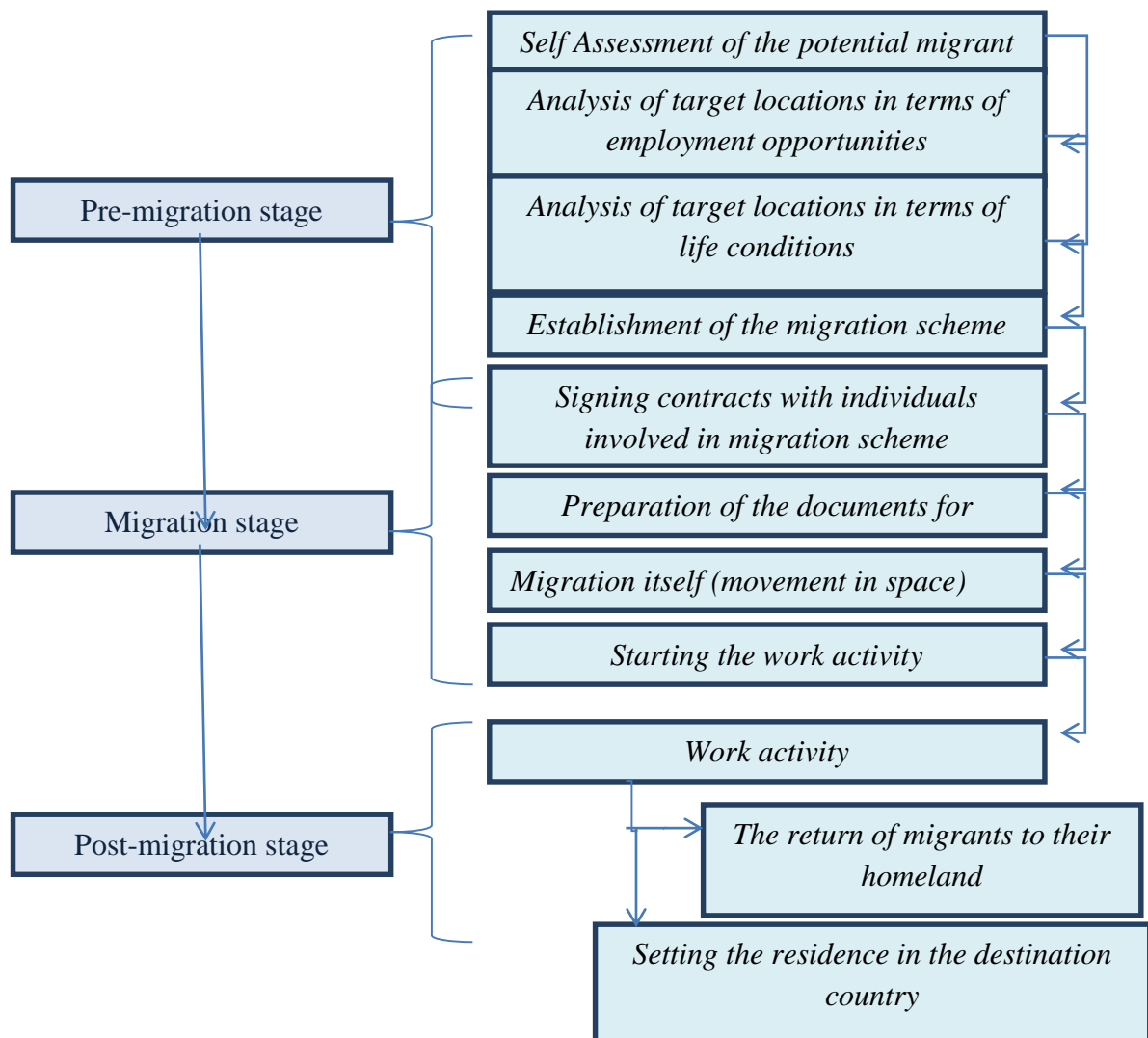
¹² Klara Foti, Mobility in Europe since the Eastern enlargement: emergence of a European labor market?, Eastern Journal of European Studies, Volume 2, Issue 2, December 2011, p. 102

perception of these risks, stopped some of them and others do not. But even provokes. Perhaps this is the explanation of the fact that migrate mostly young and people with low levels of professional potential. Perhaps an appropriate approach is proposed (Simon 1983), claiming that: human rationality is limited and bounded by the situation. People often are not able to anticipate the negative environmental disturbances on its plans. Migrants bear risks and uncertainties decisions accordingly. Not much is known about the perception of risk. Suppose, just like some information about risks are to prospective migrants. Especially important is the analysis of decision-making. De ce in aceleasi conditii diferite persoane procedeaza diferit.

3. Investment approach of decision making process

Segmentation migration process from the perspective of the individual investment it would require phasing described in Figure 1.

Figure 1: Stages of migration process from individual perspective



Source: elaborated by author

Development activities related to the decision to emigrate falls in the first stage of the migration process- stage pre migration.

I. In the stage pre migration, potential migrant activities (together with household members) focuses on the analysis and evaluation of the following factors: autoevaluarea potențialului migrantului:

- i) general health;
- ii) the level of training;
- iii) the degree of adaptability to new working conditions;
- iv) the degree of adaptability to new conditions of life;
- v) the capacity and speed of integration in collective bargaining;

vi) the capacity and speed of assimilation of new technologies;
vii) the degree of knowledge and / or capabilities of learning spoken language in the country of destination, etc.

In addition to potential migrants matters health of family members and his household. Being poor can negatively influence the migration decision.

The final phase in the first stage is limited to the construction of a detailed scheme of the migration process. The economic justification is clear from the present value of gross differences in expected future earnings obtained from migration, determined according to the formula:

$$V_{pbij} = \sum_{t+1}^T \frac{Y_{it} - Y_{jt}}{(1 + d)^t},$$

where V_{pbij} = present value;

T = period estimate;

Y_{jt} = expected earnings in the destination of migration in year t

Y_{it} = gain hoped to be obtained in the home country in year t

Net present value of migration from one country to another is determined as follows:

$V_{pnij} = V_{pbij} - C_{ij}$

where C_{ij} is the cost of migration.

II. Stage migration can be divided into the following activities:

a) Negotiate contracts with:

- Carriers;

- The people who oversee the care of members of the household / family remained at home;

- Subjects of the region of destination, which will arrange accommodation contacts;

- Subjects of the region of destination, which will arrange employment contacts.

b) preparation of documentation migrant;

c) definition of the emigration;

d) choosing the form of immigration (legal or illegal);

e) migration, actual;

III. Operational phase or the post migrational stage. This step takes two approaches, namely the prospect of long-term and short-term perspective.

The short run involves practicing labor activity during a period of work (day, month, or year) that will allow you to track issues and errors previous phase.

Long-term perspective highlights two factors:

1- first we will call classic - the cost of production, which totals the amount of work efforts, efforts to assimilate new technologies work, the erosion of the quality of labor, pressure longing emotions related to their home region and relatives;

2- the second is represented by the labor income, which includes wages, income from entrepreneurial activities, income from social assistance etc.

After a period of work of migrant labor, migrant gets to decide:

- *Return to country of origin or*

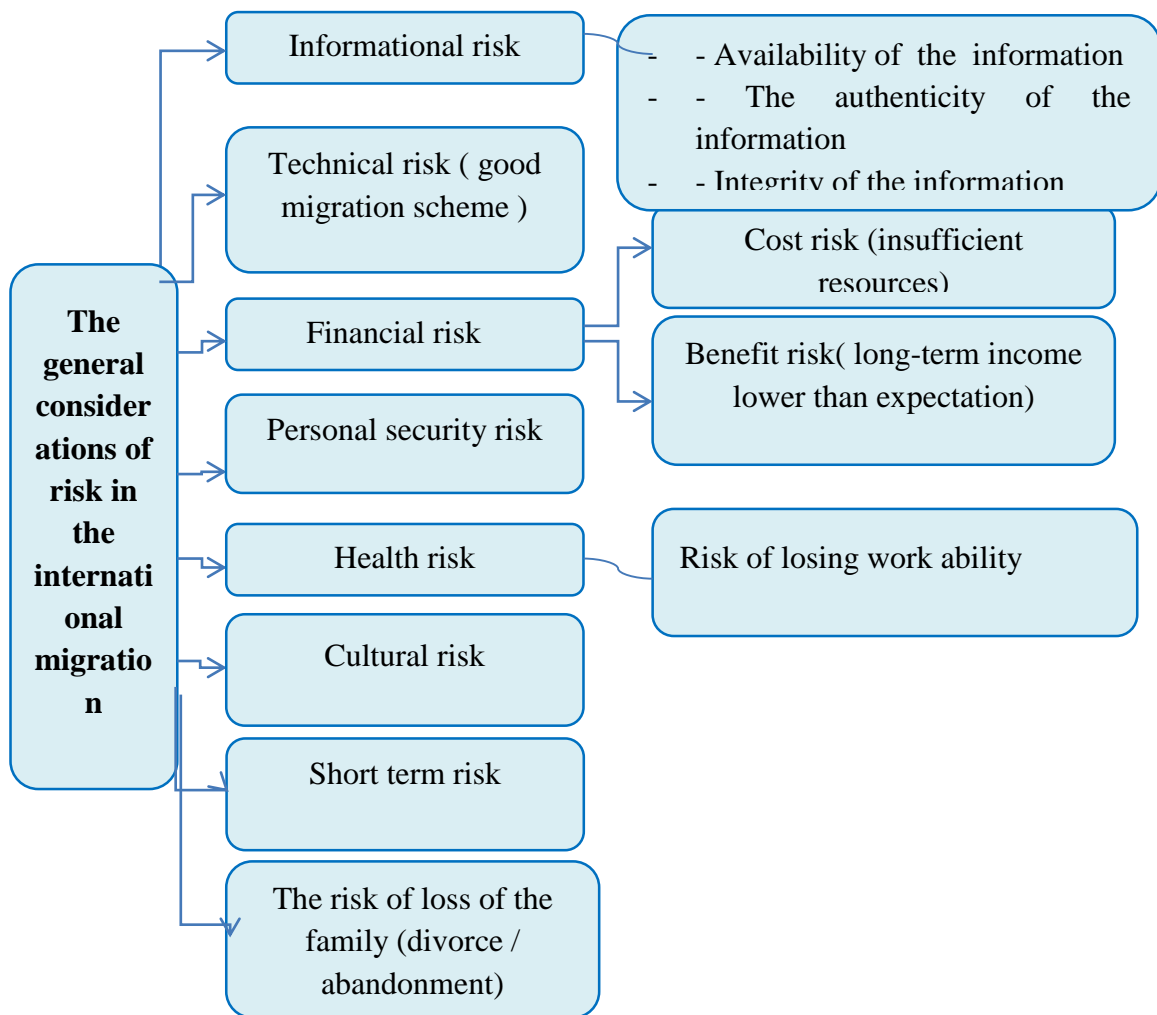
- *Determining the destination country.*

However, it is possible that over a certain period of time to plan a new trial migrant migration - to another destination location, the first country of destination serving as a platform for a new emigration. Also, depending on the results achieved, especially if the record high profitability, migrant family members or friends involved in the process of migration, migrant first serving as a core node in the social network.

Social relations between initial migrant and future migrant influence on the growth process of return migration for future migrants, at least justify relying on reducing costs and risks of the first stage of the migration process. Empirical evidence of the positive impact of social networking and on return migration and post-migration steps.

Migration, like other socio-economic activity takes place in the ambience of a multitude of diverse risk categories. Depending on their mode of production are grouped pure risks and speculative. All stages of the migration process are exposed to several risk categories (figure 2).

Figure 2: Risks associated with international migration of the labor force



Source: elaborated by author

Thus, in the pre migration stage, when defining the activities that make the migration process: resources, participants and desirable skills in migration, identify internal and external risk factors. Among the specific risk categories pre migration stage primarily include risks that may arise in determining migration conditions (technical risk) and the necessary resources (financial risk). All stages of the inherent risk situation, which includes all exogenous risk, once materialized, may affect the results of migration and the process itself. *The degree of risk can evolve under certain circumstances.* During migration, the risk factors are determined by the technical characteristics of migration directly, experience and network quality actors involved in migration, exogenous parameters (mainly macro - economic) that may affect the environment of existence. Arise during the implementation process causes some risk factors that can influence the migration process inherent economic outcomes such as:

- rising price of education qualifications and / or waiver of qualification;
- increasing cost of maintenance;
- increasing commodity prices, especially consumer services;
- labor price changes;
- estimation errors of the benefits, costs and revenues, exceeding the initial planned investment volume.

Risk exposure ceases with the beginning of migration and its accompanying duration. Among the elements which clearly changes during the migration and are risk factors we can mention:

- Worsening economic circumstances in the country of destination;
- Reduce wages because of increased competition in the labor market;
- Changing migration policy in the destination country;
- Increased costs of living in the country destination;

These elements cause revenues and expenses change migration.

Therefore, we conclude that the level of risk that accrues migration causes of migration decision and any decision must be based migration times and the associated risk analysis. It is intended to ensure a

proper balance, satisfactory correspondence between the degree of risk of migration and size of expected benefits on account of efforts. Along with simple hypothesis accepted for most types of investments, investment in labor migration seeks not only revenues exceed expenses.

The problem with migration is more complex:

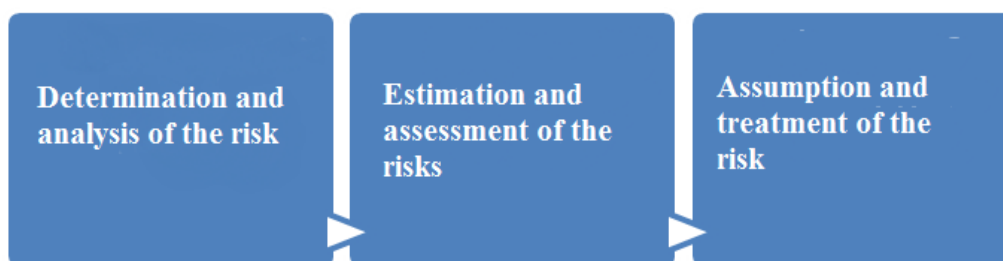
- behavior of migrants is considering not current salary, but rather the real wage or income that can be obtained throughout the active life;

- The decision to migrate or not depends not only family one salary (or salary of the head master), but takes into account the wages / incomes of all members. Therefore determinant of migration is the real wage, but family income;

- Migrants are not a homogeneous mass of individuals. Their behavior differs depending on the characteristics of people and wage is not the only reason for migration.

The difference in salary can be an impetus for migration for young people. Long-term incentives may change but as. eg migrants who return to their home places can count more reasons related to the attractiveness of their area of origin pleasure to return to their native charm their salary as motivator losing importance. When is the difference in wages between the two regions, lower wage must be seen in light of its ability to finance the cost of migration. Risk management of labor migration includes a number of activities within the plan, described in Figure 3.

Figure 3: The risk management of the labor force migration



Source: elaborated by author.

Thus, the management of risks associated with labor migration (for example) includes a number of consecutive activities:

a) *Determine risk, which is the combination of analysis and risk assessment. Risk analysis involves the systematic use of information to identify sources of risk, then following the risk assessment.*

b) *Risk estimation involves expressing duration, intensity, size, and ability to generate consequences of each identified risk Risk assessment involves comparing the estimated risk with risk criteria to determine the significance of risk.*

c) *Risk-taking involves overcoming opposition and continued involvement in the migration process. There seem to be important risk factors associated intrinsic a part of everyone's personality and those arising from personal behavior standards. Risk treatment includes the selection and implementation of measures to reduce the risk.*

So, risk and uncertainty are inherent human migration. But the whole process of risk management related to labor migration an important role of migrant direct attitude towards risk.

4. Conclusion

Immigrants are a segment of the population, the success of which much depends on information obtained through their social networks. This is evident, at least in the employment of immigrants in the workforce. However, immigrant networks plays a role of interference shield new society. Immigrants are a group of people highly dependent on information networks on employment opportunities. Network characteristics differ depending on the job they have access. Among the factors that determine variation in parameters established networks and their effects on the labor market are age immigrant in the country of destination and origin country of origin.

The role of networks, especially for immigrants, is recognized by many researchers, for example (Munshi 2003). Although the important role networks play a for all bedding population in terms of disseminating Information and search jobs for immigrants they become critical. Especially in cases where newly arrived immigrants, because they are not familiar with traditional methods of searching for habitable work or they cannot use them as perfectly legitimate in the destination country. Such information problems

are compounded in the case of unauthorized migrants, who attempt to minimize contacts with formal institutions or agencies and hesitate to approach employers or other individuals whose intentions are unknown.

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PROBLEMS OF THE INFORMATION ECONOMY FORMATION AND DEVELOPMENT IN RUSSIA

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Abstract: *The article shows that the current performance of economic development dynamics of Russia demonstrates the fact that the country starts to develop a specialized sector of the economy based on the production, distribution, exchange and information consumption. It is revealed that the dynamic development of the information economy is significantly limited by the imperfect structure of the national economy, the priority development of primary production, the degradation of the social system of education and science, the geographical features of the country, a high degree of technical and technological differentiation key sectors and industries, with the presence of many administrative barriers.*

Keywords: information economy, information and communication technology, internet, development, problems.

JEL classification: L86

1. Introduction

Since the late 1990s, the spread of information and computer technology (ICT) has become very comprehensive, and the rate of their distribution exceeded all the expectations. In the first half of the 1990s, developed countries, and then a number of developing countries have adopted national state programmes the main theme of them is not only building a modern information infrastructure, but also to study the potential use of ICT for social purposes.

In Russia, after the restructuring until 2000 before signing the Okinawa Charter of Global Information Society, information society issues were not popular either politically or economically or in sociological discourse.

Nowadays the developed countries apply information technology in many business areas, especially in the areas of finance, production automation, production control, engineering, distribution, forecasting and planning, transport, marketing and trade communications. New production increased complexity becomes manageable, expanding geographic scope of production control, the development of better methods of planning and forecasting. Feature information economy is aimed at the mass and the global nature of economic cooperation as well as the distribution of wealth created among consumers globally. Unlike traditional methods of common economy managing which are based on market management and business model ("demand-supply" scheme-based), the information economy is based on the innovative business, information engineering and autoformalization of economic processes.

That's IT industry which is able to pull Russia into the technological leaders and contribute to the elimination of commodity dependence of the Russian economy, but the process of becoming a knowledge-based economy in Russia has its own specifics.

2. Literature review

As international experience shows, high technology, including information and telecommunications, have become the engine of socio-economic development of many countries. (McKinsey, 2009).

In our opinion, for the dynamic development of the information economy in Russia one need a special approach that will take into account cultural, national, economical and social characteristics of the country.

Over the past 10 years, Russia has developed and adopted very important documents for information and technological development: Table 1 shows the main policy documents and regulations issued by the Ministry of Information Technologies and Communications of the Russian Federation as well as other interested ministries and departments of the Russian Federation.

Table 1: Formation of the institutional framework of the information economy in Russia

Year	Institutional framework formation of the information economy in Russia
2000	The official government body- the Ministry of Communications and Information Technology was established, it was responsible for the management of IT sector in Russia.
2000	The State Duma's Information Policy, Information Technology and Communications Committee was established;
2000	The information security doctrine of the Russian Federation was adopted
2002	The Federal Target Programme "Electronic Russia" was adopted (2002-2010);
2004	"The concept of information technologies using in the federal authorities activity for the period up to 2010" was adopted
2006	The federal act of the Russian Federation "On Information, Information Technologies and Information Protection " was adopted;
2008	A long-term strategy of the information society development in Russia was adopted ;
2009	The following federal acts were adopted: № 121"On introducing the changes to certain legislative acts of the Russian Federation because of the adoption of the Federal act "On the activity of individuals payments carried out by payment agents" and the federal act № 103 " On the activity of individuals payments carried out by payment agents ";
2010	Russian Government approved the State Programme for the Information Society Development for the period 2011-2020;
2011	There was adopted a new version of the law on the «Digital Signature».

Source: Garifova L.F. The economy of the digital epoch in Russia: development tendencies and place in business. *Procedia Economics and Finance* 07 (2013), p.211-217

The state invested more than 5 billion roubles annually for the "Electronic Russia" project realization (Modern telecommunications of Russia, 2009). Besides budget, ministries and agencies expenditures on ICT annually are from 83.9 to 101.7 billion roubles. (Nizhegorodtsev, A., 2008). In 2010, the Russian Government approved the State Programme of the Information Society Development for the period of 2011-2020. The main objective of the programme is improving the life quality and conditions for business development in the information society, as well as the development of the Russian information and telecommunication technologies market, supporting the transition to the economy which is performed with the aid of information technology, including (State program of the Russian Federation "Information society (2011-2020)):

- stimulation of domestic developments in the field of information and telecommunications technologies;
- training of qualified personnel in the field of information and telecommunications technologies;
- development of the economy and the financial sector using information and communication technologies;
- formation of socio-economic statistics of the Information Society;
- the development of industrial parks in the high technology area.

Russian State Duma's Committee on Information Policy, Information Technology and Communications announced the creation of four working groups to change the regulatory framework in the field of information technology and communications, including the group developing a legal framework for the implementation of the "Information Society" programme. To solve these problems the state provides the development and improvement of law enforcement in the field of information and telecommunication technologies.

Every day many entities visit the virtual marketplace to offer their goods and services in order to get the product markets, to establish contact with new groups of customers from medium or large business layers. So the global network Internet provides them with this opportunity. Today's digital playing field, with its liberalized trade barriers and real-time market linkages, allows firms to quickly become global competitors. The Internet is driving economic growth and job creation. (Dean D., Zwillenberg P.2012)

Today in Russia there is a rapid development of internet trading (Relevant topics and trends Runet, 2011). The number of regular customers of online stores (monthly shopping) is about 6 million Russians. A total number of customers twice more. According to the POF forecast («public opinion» fund) in 2011

people purchased in RuNet for 245 billion roubles. New (since 2010) trends in the retail Internet trading are (Fund «Public opinion», 2010):

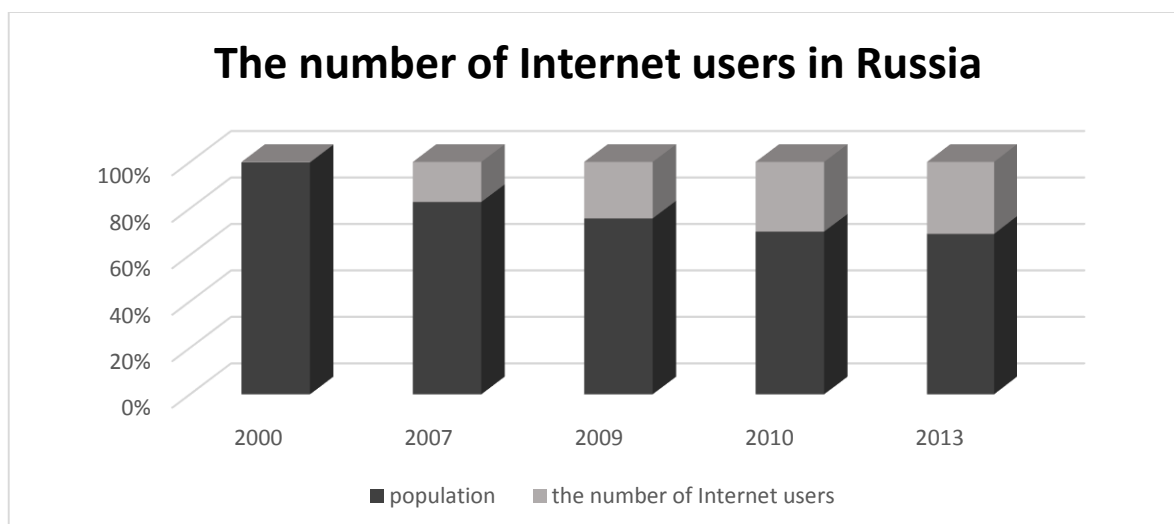
- 1) increased demand for clothing and footwear. This category of goods is among the three most purchased goods in 2010 (18% of customers);
- 2) sales increase and the opening of new online stores in the regions;
- 3) demand increasing for travel online services.

There is a market of electronic money in the information economy which today is showing steady growth in Russia, which is determined with the need in safe and fast payment mechanisms of various goods and services. It is stated in the report of the «Electronic money» association (EMA) which includes in its membership the committee on payment systems and banking instruments WebMoney, «Yandex Money», i-Free Innovations, as well as «QIWI Purse» (Association «Electronic Money», 2010). As calculated in the EMA, in the first three quarters of 2010, the volume of purses completions totaled about 40 billion roubles, which is 40 percent more than the same period in 2009. At the same time the number of active electronic purses amounted to about 25 million, that is 20 per cent more than last year. Thus, the average annual turnover of one electronic purse is more than 2100 roubles. "The main market indicator in the past year was its rapid development, at the constant composition of the major market participants. For example, the exchangers market virtually disappeared, but at the same time, from zero rose the market of virtual cards and other hybrid services involving financial institutions," - said in the report (Association «Electronic Money», 2010).

In 2009, the following federal acts were adopted: № 121, № 103, they became the first Russian legislative acts which concerned not only traditional but also electronic retail payments. Electronic money market development suggests that many business entities sell their products and services for electronic money, which in its turn attracts new electronic market participants.

Nowadays in Russia the information technologies penetrate everywhere exerting a tremendous influence on the way of economic agents behaving in the economy. Information technology is rushing forward, seemingly chaotically, and it is difficult to discern patterns to guide business decisions. Technology changes, but economic laws do not. (Shapiro, C. Varian, H. R. 2013). Number of Internet users is growing steadily as shown in the figure 1.

Figure 1: The number of Internet users in Russia



Source: (compiled by the author on the basis of statistical data of Federal State statistics service <http://www.gks.ru/>)

As the chart shows, in 2013, the population of Russia amounted to 143 657 134 people, the number of Internet users -64 400 000. However, despite the overall positive trend, modern computer and mobile technology, the World Wide Web is still available in its entirety only to the residents of big Russian cities. The number of rural subscribers is definitely growing (summer 2012 POF analysts counted 19% of the total number of users in villages, at the moment there are 20% of them), but with very modest speed.

3. Results of the study

So, despite the rapid growth of the Internet users number, the development of internet trading, the large-scale state support of the information economy development there are still number of serious problems that put back the development of the information economy.

The main problems of the information economy formation in Russia that we identified during the study are:

1. Major funds are concentrated in raw sectors of the country, that's why the developers of IT products are oriented primarily to solve their problems. Deformed industry structure of the economy with the advantage of the extractive sector (oil and gas, metallurgy), industry development imbalances have a symmetrical influence on the IT market. Focusing on the raw materials sector as the main consumer of IT products in the domestic market, the IT sector itself becomes dependent on the buyer and acquires additional risks that is most evident during the financial crisis. At the same time there are not actually developed high quality and affordable IT solutions for small and medium businesses in Russia. Thus significant part of the market where modern information processing technology can bring important benefits is not involved and the average level of IT development in the enterprises remains extremely low. Meanwhile the branch of engineering in general is well prepared for serious projects on production automation and computerization, the necessary equipment and technological literacy of workers are at a good level.

2. In Russia, small businesses are concentrated in small wholesale and retail trade, personal services and although its size and contribution to GDP is still 2.5-3 times less in comparing with developed countries it plays a special role in the information sector, which as a rule plays the role of the "last link" it is responsible for the final interaction with the consumer and therefore it is the closest to his problems and needs. It is right here that most likely the emergence of new ideas, projects, technologies which are aimed to a better perception of the information economy products. Thus small business is largely responsible for the successful establishment of the information economy in Russia, providing real integration and IT sector of economy.

In our opinion, it is necessary to create an environment in which IT business can grow rapidly from small businesses to the scale of multinational companies, because today small business development in the field of information technology is difficult due to the low level of domestic demand, limited capacity of investment attraction, the high cost of IT projects.

3. Principles of public administration and public policy .The basis of informal power realizing institutions is extra-economic coercion, centralized policy management. The Government should be directly interested in having a strong, independent information economy in the country, as information technology is responsible for the economic, social and political development. Information security is a key factor of the national security. Implementation of state IT infrastructure supporting is carried out on the legal, financial and organizational level, but measures which are taken largely insufficient.

4. Innovative IT products demand in Russia is significantly restricted, which causes the weakness of the IT market in Russia. Accordingly sellers bear more expenditure to buy each additional unit of output which increases the entry barrier to the industry on self-sufficiency and limits the potential growth of the company. Many successful companies failing to find prospects in Russia go to foreign markets becoming a peripheral link of foreign IT industry and increasing the efficiency of foreign information economy.

Nowadays the state is a major customer and the largest consumer of information technology and engineering. For many years the state has been continuing to be the engine of the market, the state orders not the first year provide more than 25%of the largest companies' revenues (Nizhegorodtsev, A., 2008). During the economic crisis such state support, of course, becomes the main factor of many companies survival, but, unfortunately, not the incentive for the improving and strengthening of IT developments.

5. In the Soviet period there was formed a special culture which identified the information behavior of citizens , the consequences of which are still evident .Also there was appeared a number of phenomena that can be called information society diseases, due to their negative impact on the socio-economic development [1, p . 105]. Low social significance of information in society had led to a lack of interest in it. It was expressed in the information passivity of citizens: information consumption was planned as flawed. Departmental privacy is a known feature of the Soviet information environment. Secrecy as a barrier of the information dissemination has always been means of power gaining. The secrecy regime, which has been gendered deep -rooted fear and hence the reluctance to share the information. And as the result we got disease, fear of exchanging. Changing the mentality takes time and targeted efforts.

6. Lack of personnel training in the IT field. The market demand exceeds the number of IT specialists graduating from Russian universities both in absolute number and specialties. nomenclature A second important aspect is the low level of practical training, which does not allow the graduates to engage

quickly in the production process, the total theoretical base is strong, but practical knowledge and skills are not enough. Retraining burden falls on the employer shoulders, increasing expenditures and cost of the final product. To solve this problem we can offer the practice of industry integration, which has long and successful experience in the energy and chemistry spheres. Large industry companies can co-finance various research projects in the universities, participate in curriculum development and in direct theoretical and practical training of students that may be the solution of this problem.

7. Another factor hindering the rapid development of modern information society is not so high level of the basic skills spread of information technology using. Also a significant obstacle to the accelerated development of information society in Russia is the lack of mass interactive cooperation of citizens and organizations with public authorities in the provision with public services of the last. Less developed regions of the country and the poorest people increasingly relegated to the sidelines because the impossibility of full access to information and knowledge to achieve greater prosperity. Due to the fact that a large part of society in these regions do not feel the positive impact of the information revolution, there appears a negative attitude to everything connected with it and the development is put back.

4. Conclusion

The new economic era is associated with inclusions into the business processes and economic relations high information processing tools. Today the emergence of new methods of management on the basis of the information technologies is all over the world, it is an evolutionary process that has its leaders and the periphery.

To solve the problems of the information economy development it is necessary in our opinion to use the following measures:

- To focus all the efforts on the small business development, which is largely responsible for the successful establishment of the information economy in Russia and the development of the IT sector.
- To increase the level of state IT infrastructure supporting at the legal, financial and organizational level.
- To increase the extent of the basic skills spread of information technology using in the society. (For example by entering into the compulsory school programmes of teaching the basic skills of information technology using).
- To solve the problem of insufficient personnel training in the IT field we can offer the practice of industry integration, which has long and successful experience in the energy and chemistry spheres. Large industry companies can co-finance various research projects in the universities, participate in curriculum development and in the direct theoretical and practical training of students that may be the solution of this problem.

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RESEARH OF METHODOLOGICAL APPROACHES TO THE TREND DYNAMICS OF SECURITIES MARKET

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Abstract: *There is a comparison of the fundamental and technical analysis of securities market in the article. It is made in order to find out the advantages and disadvantages of each of them. The carried out analysis allowed to draw a conclusion that methodological approaches complement each other and application of the fundamental and technical analysis allows to make more exact forecasts of trend dynamics of securities market. The offered algorithm of adoption of the investment decision with application of the fundamental and technical analysis leads to the successful decision.*

Key words: securities market, fundamental analysis, technical analysis, investors.

JEL classification: G1

1. Introduction

Problem of the trend dynamics forecasting of the Russian securities market is relevant for economic science by virtue of the nonequilibrium state of the financial market, the development process is characterized by a succession of crises. In order to improve forecasting tools trend of market dynamics is advisable to develop the traditional model of foreign financial economics and adapt them to the conditions imposed by the emerging economies, where the Russian Federation is also included. The mentioned problems are interesting in terms of a better understanding of the theory of fundamental and technical analysis and its application to the securities market.

In addition to the theoretical component the trend dynamics forecasting problem of the securities market is of particular relevance in practice in the construction of trade techniques and portfolio management strategies.

2. Theory

An investor has two methodological approaches of the stock market forecasting: technical and fundamental analysis, which combination forms a powerful tool for making an investment decision. In our view, the essential difference of technical and fundamental analysis is the type of investor. Let's develop recommendations on the stock market analyzing methods selection by investors' criteria.

Table 1: Recommendations on the analysis methods selection of the securities market

The type of analysis	Fundamental	Technical
The category of the investor	The long-term period investor	Day trader
		Scalper
		Swing trader
	Middle-term period investor	

Day trader is a player who makes a profit from short-term fluctuations in the most liquid securities during the day. This type of players, as scalpers, specialized in trading intraday. He does not leave open positions to the next day. A day trader, unlike a scalper, does not work in quiet and leisurely traded securities and highly liquid and volatile financial instruments. A swing trader, unlike day traders operates at longer time intervals and uses trade as a five-minute and hourly charts. A swing trader's duration of positions hold ranges from several hours to several days.

However, it does not mean that a particular investor in trade cannot use both techniques. On the contrary, the use of both technical and fundamental analysis can improve the accuracy of estimates and projections that ultimately will enhance the efficiency of trade.

Fundamental analysis is studying the movement of prices at the macroeconomic level, and can help to identify the main market trend, which is often not enough. In this area, it is recommended to apply technical analysis based on the hypothesis that market prices reflect the desires and actions of all market participants, resulting in the price and volume reflect each transaction in the market.

The essence of the contradictions between the supporters of technical and fundamental analysis is the effectiveness of the theory methods that is not entirely correct, as the reasons for the market's reaction studied by these theories are different in nature and the use of fundamental analysis is more suitable for determining the long-term market movements and trends studying the impact of external factors on it and technical - for short-and medium-term trends.

The effectiveness of the fundamental analysis is determined by the complexity of its application. The author characteristic of fundamental analysis of the securities market is presented in table 2.

Table 2: Characteristics of the fundamental analysis of the securities market

Analysis	Characteristic		
Fundamental	Systemic analysis of financial and economic activity indexes at all levels of management to determine the investment attractiveness of securities and estimate their fair intrinsic value in order to find the undervalued and overvalued securities.		
Stages			
Macroeconomic analysis	Industrial analysis	Microeconomic analysis	Modeling of securities prices
parameters describing the dynamics of production, consumption, accumulation, movement of money supply, the level of inflation, the financial condition of the state are studied. The problem situation prediction is the assessment of short-, medium-, and long-term development of the economy and the separate branches.	industries features study, industry thus is divided into stable, cyclic and growing. Depending on the impact of environment they can develop ahead ,in parallel or with a lag of motion	overall economic analysis of individual companies activities, the ways of the most complete implementation of the developed investment policy are determined institutional, commercial and social conditions are estimated, analysis of the financial situation of the company, determining the price of the company	Key elements of the assessment are the volume of reserves, financial transactions, the structure of the security market, the yield of the securities. Monitoring of output planned and unexpected news, drawing possible scenarios.
Tools			
<p>P/E (Price to Earnings) – P-E ratio, or P/E ratio, is an equity valuation multiple. It is defined as market price per share divided by annual earnings per share;</p> <p>P/B (Price to Book) – P/B ratio, is a financial ratio used to compare a company's current market price to its book value. The calculation can be performed using per-share values, is to divide the company's current share price by the book value per share;</p> <p>P/S (Price to Sales) – P/S ratio or PSR is a valuation metric for stocks. It is calculated by dividing the company's market cap by the revenue in the most recent years, or, equivalently, divide the per-share stock price by the per-share revenue;</p> <p>TR (Total Return) – TR is your annual gain or loss on an equity or debt investment. It includes dividends or interest, plus any change in the market value of the investment. When total return is</p>			

expressed as a percentage, it is figured by dividing the increase or decrease in value, plus dividends or interest, by the original purchase price;

DY (Dividend Yield) – dividend-price ratio of a share is the dividend per share, divided by the price per share;

ROE (Return on common Equity) – measures the rate of return on the ownership interest (shareholder's equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities);

ROA (Return on total Assets) – ROA percentage shows how profitable a company's assets are in generating revenue;

ROS (Return on Sales or Profit Margin) – also known as operating income margin, operating profit margin and return on sales-is the ratio of operating income divided by net sales, usually presented in percent;

TAT (Total Assets Turnover) – the ratio of net sales to total assets;

D/A (Debt to Assets) – is a financial ratio that indicates the percentage of a company's assets that are provided via debt. It is the ratio of total debt and total assets;

REE (Revenue per Employee) – is the calculation used to determine how productive employees are in business. Companies use the formula total revenue/total number of employees to determine the revenue per employee;

REQ (Revenue per dollar of Equity) – revenues from sales per unit of share capital;

BV (Book Value per Share) – is used to calculate the per share value of a company based on its equity available to common shareholders;

RG (Revenue Growth) – illustrates sales increases per one year;

EPS (Earnings per Share) – the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of company's profitability;

EG (Earnings per Share Growth) – growth in net profit per share in per cent per annum;

EBIT (Earnings Before Interest and Tax) – earnings before interest and taxes;

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) – earnings before interest, taxes and non-cash expenses.

The fundamentalist theory is the most common. The decision to buy or sell a financial asset fundamentalists take based on the determination of fair value of the asset and its comparison with the current market price. According to fundamentalists, any asset has real (internal) value, which for one or another reason may differ significantly from the current market price and, consequently, the financial market has always undervalued or overvalued securities.

3. Results

As the fundamental shortcomings of the method one should note the following:

1. investors base their decisions on information already known to all major market participants, and therefore, this information may not give them any advantage;
2. most of the fundamental information is subjective, which means that the dependence of its interpretation of the personal opinion of the specialist, analyzing this information;
3. if the market underestimated the security now, it is quite possible that it will not do it in the future, as a result of the costs are paid off, that is, there is no guarantee that the market will confirm the fundamental analysts' estimates;
4. when analyzing one need to collect information about the company for 3 - 5 years and make the forecast for the medium term. Obviously that the past financial indicators are not an ideal basis for predicting future efficiency;
5. fundamental analysis methods have been developed and used effectively in most developed markets. As a result, analysts have to deal with the lack of reliable financial records, limited statistical material, the difficulty of predicting the company related to the overall economic and political instability in the country.

Let's consider the technical analysis. Today there is a notion of technical stock trading as an independent direction, based solely on the methods of the technical analysis of prices. Expanding markets and the number of their members, especially the individuals, causes all growing interest to developments in the field of technical analysis, which leads to their high relevance.

The groundwork for the direction of technical analysis is made in studies published by Charles Dow in the 1890s. However, in its present form as a consistent set of postulates, the theory was formalized later by Robert Rea, George Schaeffer and William Hamilton. Later, on the basis of these ideas William Gunn developed independent direction analysis using mathematically calculated technical indicators to predict prices. He formulated the rules which particularly involve the creation of a hard algorithm opening

and closing trading positions based on specific market signals. Substantially expanded set of technical indicators George Lane, Welles Wilder, Larry Williams.

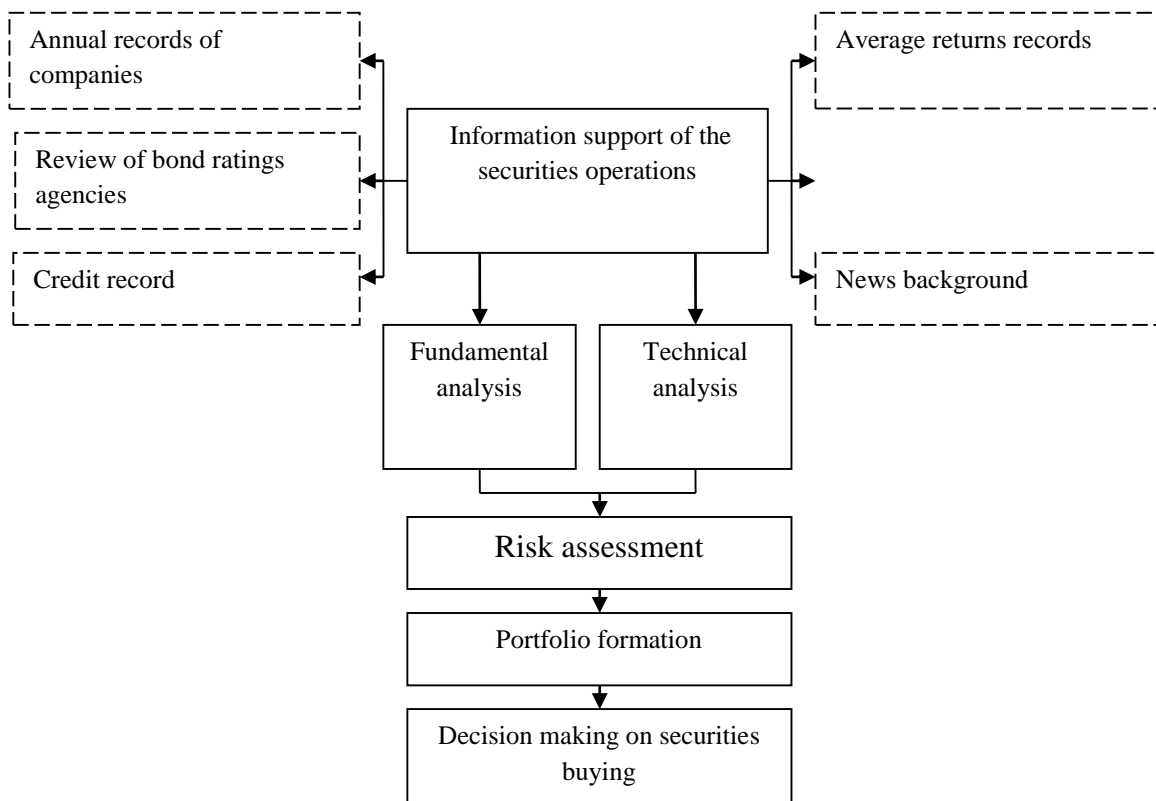
Table 3: Characteristics of the technical analysis of securities analysis of Characteristics

Analysis	Characteristics		
Technical	Technical study of the dynamics of the securities market through charts to predict the future direction of the market value . If the price of a financial instrument in the short term change, this will be preceded by characteristic features, which can be identified by analyzing the history of price changes		
Required characteristics of technical trading			
applicability	efficiency	versatility	structural simplicity of trading systems
<p>technical trading involves the use of tools and methods of technical analysis in the decision-making process . Accordingly, technical trading strategy cannot be considered any sales strategy, but only that which involves the use of appropriate tools and indicators. For example, if the basis for the decision in this strategy is the earnings per share dividend, such a strategy cannot be applied to technical trading, as its main component is fundamental. Such a strategy does not meet the applicability</p>	<p>effectiveness factor means the potential ability to create on the basis of this strategy profitable technical system. Typically, the technical trading strategy implies the ability to create on its basis set of systems, some of which may be profitable, while others do not . Also different system based on a strategy can produce different results on different markets. For this reason it is impossible to judge the effectiveness of the strategy based on the effectiveness of a single ended system created on the basis of its technical trading existing systems typically do not equally effective when applied to various types of trends , which makes it necessary to use different systems and switching between</p>	<p>existing systems typically do not equally effective when applied to various types of trends , which makes it necessary to use different systems and switching between . Developed technical trading strategy should allow to create on its basis purpose in relation to different types of trend trading systems that would be effective on the ascending , descending trends , and transition</p>	<p>transition new technical trading strategy should allow to create on its basis a relatively simple trading system that do not require a large number of different combinations of indicators, which is designed to facilitate the process of analysis , systems settings , as well as the process of finding and eliminating potential errors generated by technical trading systems</p>
Postulates of technical analysis			
1) the accumulation of information , or " market considers all	2) direction of price movement , or " the price movement trends "		3) frequencies, or "history repeats itself the price dynamics "

<p>This postulate is that all the factors that might, for whatever reason, or may affect the value of the security, embodied in the ratio of supply and demand and are reflected in the value of its market rate. Accordingly, the technical analyst is not concerned with the question of what kind of reason affect the balance of supply and demand, it is only interested in what happened to the price</p>	<p>This postulate is that for any period of time, price change does not occur randomly, and obeying a pattern that exists for some time and is manifested in the tendency specific focus. This trend will continue as long as, for any reason will not move in the opposite direction. Most methods of technical analysis is by its nature follows the trend, that is, their function is to help the analyst to recognize the trend and follow it throughout the period of its existence. Studies of the dynamics of the market is closely connected with the peculiarities of human psychology.</p>	<p>Studies of the dynamics of the market is closely connected with the peculiarities of human psychology. People tend to make similar decisions in similar situations and if the models based on their behavior, worked in the past, there is a high probability that they will work in the future. Taking account of this principle to evaluate the situation on the market and, given its historical recurrence, determine the likely direction of its development</p>
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The actual process of making an investment decision in the stock market should be based on both approaches, which will undoubtedly lead to an increase in the success of the decision. With this provision, the investment decision involves several steps, which are presented in Fig. 1.

Figure 1: Investment decision-making algorithm based on fundamental and technical analysis



4. Conclusions

Analysts who own methods of fundamental and technical analysis and tracking liquidity, can skillfully predict the behavior of prices in the market. Variety of market forecasts and investment approaches to make the market place competition of ideas and sentiments. Price charts reflect the quintessence of liquidity flows as a drawn market consensus about whose basic methodology is a large number of supporters at a given time. Then come reverses of the trends. Behavior of the markets in the

turning points bears a discrete character, so the ability to distinguish between them and pick up the new algorithms is a very important skill for analysts.

In the mid -1990s, a new exchange science appeared which was called a trading chaos, which had rejected not only fundamental, but also all the postulates, paradigms, hypotheses and axioms. The author of this theory is considered Bill Williams.

The basis of a new kind of analysis of the securities market includes such concepts of chaos theory as a driving force, the rate of the driving force, fractals, and the balance line that crosses the whole plane, and linearity of technical analysis. Chaos Theory is mathematical formalism describing the behavior of certain nonlinear dynamical systems subject to a phenomenon known as chaos, characterized by a strong sensitivity of system behavior to initial conditions. The result of this sensitivity is that the behavior of the system seems to be random, even if the model describing the system is deterministic.

The above analysis showed approximately equal to the subjectivity of each method, but apparently accurate forecast prices easier to reach, simplifying the analysis to simple fundamental and technical components. This allows you to clear the way for our intuition in decision making.

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COMMUNICATING EUROPE BEYOND THE CRISIS, A PROJECT TO SHAPE OUR FUTURE

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Abstract: *After the most recent economic crisis the European project is currently going through the worst crisis of confidence it has ever seen. That's why it is so important today to point the European debate in the right direction, to remind ourselves wherein Europe's value lies, to consider how to carry Europe as a project into the future. Change is about restructuring and communication.*

The paper deals with communication aspects in order to create new confidence in the European project and to explain why being together is better than being divided. The paper seeks to synthesize existing research, theories and concepts, in order to create common values and interests for shaping tomorrow's world.

Key words: European Union, communication, crisis, values

JEL classification: D83, P48, F53, N44, A12

1. Context and trends

As Keohane (2014) stated there are a few big trends we should consider for the next decades: the world economy is changing, the power shifting from the US and Europe to China, India, Brazil and so on, but there will be ongoing interdependence; the global governance may also change because of this, but also because we can see many non-state actors like cities, businesses, that make governance much more complex. As it was presented in the ESPAS (2011) report trans-national non-state actors, empowered by new technologies, will establish innovative forms of cooperation; 'spoiler' transnational actors will also pose asymmetric threats to state and citizens well beyond the control of individual states.

B. Huybrechts and J. Defourny (2010) estimated the role of transnational corporations that will take on increasingly state-like roles and provide public goods, particularly social and welfare services, in particular health care, when state agencies are unable or unwilling to provide them. Social enterprises will grow on importance because of their combination of market mechanisms and a sense of social purpose.

Another aspect is that the huge challenges of our times do not respect borders; either we talk about the regulation of the financial markets, combating climate change or security policies.

The internet has changed the world and in the future everything in the natural world will have a digital counterpart. The characteristics of ICT use - multiple and simultaneous action, near-instantaneous responses, and mass organization across geographical boundaries - increase the potential for more frequent discontinuous change in the international system. On the other hand, ICT will give governments - both authoritarian and democratic - an unprecedented ability to monitor their citizens (National Intelligence Council, 2012). Also, the rapid empowerment of individuals will occur thanks to the growth of information technology (Manning, 2013). Social media empowers people to associate and organize more effectively than ever before. A global citizens' agenda will emphasize fundamental freedoms, economic and social rights and, increasingly, environmental issues. These advocacy networks will be able to exercise most influence in states with liberal-democratic policies and may become a more permanent feature of life in autocratic states.

Hoorens et al (2013) stated that inequality will be the single most prominent societal challenge for the EU in the coming decades. Changes in the structure and direction of inequalities are likely to pervade all policy areas, resulting in a need for innovative approaches.

Nowadays we witness a "Third Industrial Revolution", meaning a necessity for a convergence of technologies that are mutually enabling: information technology, additive manufacturing (3D printing), robotics, nanotechnology, and biotechnology. For the coming generations both innovation and adaptation of new technologies will have a tremendous impact as these new technologies and the industries that produce them will begin to reshape the economic landscape, methods of production and will become more

local, more customized and niche-oriented.

Manning (2013) also suggests that the European military role beyond its periphery will be minimum until 2030 and Europe will become more a geo-economic and diplomatic actor, with its security role concentrated more in the nonmilitary realm, namely in foreign assistance, conflict prevention, and democracy promotion.

The greatest near to medium-term opportunity for Europe and US relations is the proposed Transatlantic Trade and Investment Partnership (TTIP), a comprehensive agreement that creates the basis for the world's largest single market with long-term strategic benefits.

We can conclude that with these global challenges and interdependence, no country will be able to guarantee its citizens, prosperity and security alone over the long term.

2. The European project

As a historically unprecedented experiment in supranational governance, the European project remains very much a work in progress (Manning, 2013), but Europe still is the largest economy and the largest trading bloc in the world and also the richest and most peaceful region in the world.

European integration is our continent's greatest political success story, as a response to our continent's self-destruction in the past, and has given us almost seventy years of peace, freedom and prosperity. The most important aspect in the project of an integrated Europe was the desire to work for peace and this led to the ability of the countries and societies to share sovereignty and arrive at joint solutions, an extremely valuable capital into the shaping of a new world order.

Europe's fundamental values are human rights, the freedom of the individual, the protection of minorities in states based on the rule of law and universal participation in democracy. The second article of the Treaty on European Union states: "The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities." The European approach supposes fair opportunities in a successful social market economy.

At the heart of the European project lies a commitment to the single market, the subsidiarity principle, and the "four freedoms" as well as other traditional liberties such as freedom of speech and religion. These values are universal and there is nothing specifically "Anglo-Saxon" or "German" about them. The common market, a catalyst for growth and competitiveness, gives employees, students and consumers freedoms, rights and opportunities, it creates jobs and brings prosperity.

The EU is a multilateral player in the world, disbursing some €12 billion per year, and is present in around 140 countries in the world (Gavas, 2013). The EU's economies of scale reduce administration costs and allow the member countries to be involved in many more countries (including a number of Commonwealth countries) than its current 27 priority target countries. According to the same author the UN and its agencies have a global political authority, but not the capacity to disburse on the scale or with the variety of instruments available to the EU. The World Bank and other multilateral development banks have the financial resources, but neither the voice on trade, nor the role in foreign and security policy that the EU has. EU frequently engages in humanitarian crises because it has a depoliticized persona that enables it to provide aid directly to non-state actors. The EU has a variety of instruments for international political and economic partnerships, 'aid for trade' expertise and the blending of grants and loans. At the same time it has experience in regional integration and cooperation, and institutional capacity-building.

There are many others benefits from being a member of the EU: harmonization of laws, for example safety labeling; freedom of movement and employment within the EU, aid to poorer areas, etc.

Member States can achieve various goals through the EU:

- multiply or project influence,
- extend geographical reach,
- benefit from economies of scale,
- improve efficiency or impact,
- increase the level of performance of other Member States,
- share expertise in development cooperation,
- benefit from joint working, which eases the administrative burden on recipient countries,
- use the 'safety valve' mechanism, that allow Member States to act independently on issues they feel strongly about.

According to John McCormick, a Jean Monet professor of European Union Politics (2013), there are ten most important reasons to like the European Union:

1. Helping bring a lasting peace to Europe.

2. Promoting prosperity, innovation, opportunity and choice.
3. Raising standards and expectations.
4. Helping Europeans understand their shared values.
5. Reducing – yes, reducing – regulation and red tape.
6. Replacing self-interest with shared interests, and exclusion with inclusion.
7. Promoting democracy and free markets at home and abroad.
8. Allowing Europe to speak with a louder voice.
9. Offering a benchmark model of civilian power.
10. Encouraging a rules-based approach to international affairs.

The same author, in his book *Europeanism* (2010) described some qualities and values that define Europe:

- Perpetual peace, meaning a rejection of violence, war and conflict as a means of resolving disputes, and with the maintenance of perpetual peace. Europeans no longer threaten one another, nor do they pose a threat to others.
- Civilian power: Europe does not use force or the threat of force to encourage change, emphasizing the benefits of civilian power and the importance of cooperation (rather than conflict) and of developing supranational structures to deal with critical international problems, focusing on non-military and mainly economic means to achieve goals.
- Cosmopolitanism: Europeans tend to believe that that all humans belong to a single moral community that transcends state boundaries or national identities.
- Communitarianism: Europeans support a balance between individual and community interests, emphasizing the responsibilities of government to all those who live under its jurisdiction. Europeans are open to the idea that society may be a better judge of what is good for individuals and to the argument that the state occasionally has a role in restricting individual rights for the greater good of the community.
- The collective society: Europeans tend to believe that societal divisions will occur in spite of attempts to ensure equal opportunity, and accept the role of the state as an economic manager and as a guarantor of societal welfare. Social democracy remains strong, the Europeans having expectations regarding the advantages of government regulation of the business sector, and of the public delivery of social services.
- Welfarism: Europeans tend to believe that while individual endeavor is to be welcomed, applauded and rewarded, the community - via the state - has a responsibility for working to ensure that the playing field is as level as possible, and that opportunity and wealth are equitably distributed. They believe that all should enjoy access to education, health care, and social security and emphasize equality of results over equality of opportunity.
- Multiculturalism: Europe has a long and often overlooked tradition of multiculturalism arising from the diversity of European societies, and a European habit of integrating core values and features from new groups with which its dominant cultures have come into contact.
- Secularism: Religion's role is increasingly marginalized: church attendance has fallen, expressions of faith have become more uncommon, agnosticism and atheism are more openly and widely admitted, religion plays only a marginal role in politics and public life, and secularism drives Europeanist attitudes towards science and towards public policies in which religious belief plays a role, including abortion and euthanasia.

Talking about the difficulties of understanding and perception that the EU faces we have to remember what Jean Monet (cited in McCormick, 2012) wrote: „Europe would be built through crisis” and would be „the sum of their solutions”. „The building of Europe is a great transformation which will take a very long time ... Nothing would be more dangerous than to regard difficulties as failures”.

3. Why do we need a better communication strategy

The German philosopher Jürgen Habermas, cited in Bargaoanu (2013) was the first to use the most comprehensive term to describe what was going on in the EU in the last period: „the crisis of the European Union”. It is about a political crisis created by the fact that economic globalization has outpaced political globalization and by the clashes over the goals of the European Union, over its future model. So, the EU, as a post-national reality, must be built and rebuilt, trust and commitment must be fought for permanently, must be created, shared and maintained through communication.

It was far too much emphasis placed on what is wrong with the EU than what is right with it. The problems that EU has, its worst crisis in his history, can represent an ideal opportunity to engage Europeans more actively in its unfinished projects.

Most Europeans by their own admission do not understand the European Union. This knowledge deficit can make them use information shortcuts. Generally speaking there is a big gap between what happens in Brussels and what people think, feel and believe back at home.

The EU looks like an insiders-only world focused on European legislation and only few people know what the differences are between the European Council and the Council of Europe, between a directive and a regulation, between the principles of subsidiarity and proportionality, green books or white books, council conclusions, commission communications or parliament statements, or to find information on one of the many EU websites.

According to Jürgen Habermas (2012), an Emeritus Professor of Philosophy at the Johann Wolfgang Goethe University of Frankfurt and one of the most influential social and political thinkers in the world today, to the present day it remains a gulf at the European level between the citizens' opinion- and will-formation, on the one hand, and the policies actually adopted to solve the pressing problems, on the other. This also explains why conceptions of the European Union and ideas of its future development have remained diffuse among the general population. Informed opinions and articulated positions are for the most part the monopoly of professional politicians, economic elites, and scholars with relevant interests; not even public intellectuals who generally participate in debates on burning issues have made this issue their own.

Valentini (2007) argued that citizen participation in EU affairs and trust in its institutions is not only dependent on citizens' motivation and desire to intervene in supranational political affairs but also on citizens' knowledge of policies and the decision-making process. These issues can be addressed in the EU's communication tools. As the internal communicative actions of the EU are dictated by the need for democratic legitimacy, effective dialogue with its own citizens seems to be the EU's greatest challenge (Podkalicka and Shore, 2010).

Communication, and particularly new media such as online communication, may play an essential role in narrowing the gap between the two parties.

As Youngs (2013) said focusing on consolidating the current level of integration in Brussels walls the democracy debate off from the citizens of Europe and is the inverse of what democratic choice is about and the foundation for deeper integration must be diversity, not an imposed standardization of values. Now states must be concerned about channeling social mobilization to more effective and proactive democratic citizenship. Civic engagement can improve the social climate underpinning EU policies. There is a need for more varied and horizontal channels through which citizens can more effectively hold public decision-making accountable, and for these to be predicated on strong bonds of civic trust not the mere enjoyment of protective rights (Tilly, 2007).

EU institutions and governments have to link civic and political society initiatives more dynamically and to communicate more effectively.

Communication must be directed to the wider public so that their opinions of the EU are balanced and informed as well as being based on fact rather than on myth. Changes in society and technology have also brought about new mechanisms through which to access information (and sometimes also misinformation). News travels fast in electronic networks and via the Internet. The authorities are faced with growing demands for current and accurate information as well as need for quick responses in crises as well as in "daily life" situations. Delays are unacceptable to the media or to the citizens. So, it is necessary to increase the global understanding of the regulatory system, to clarify the responsibilities, and to explain how the public opinion is valued.

In fact, we have to understand that we can elect new governments, but these governments cannot really change policies, because the European level handles all policies, and the national level is „busy with politics" (Hazenbergh, 2012). The nation states can well preserve their integrity as states within a supranational democracy by retaining both their roles of the implementing administration and the final custodian of civil liberties (Habermas, 2013). The same author argued that the EU permits its member states to better govern their societies in the face of globalization, thereby expanding, rather than shrinking, genuine democratic control.

The EU remains tightly controlled by elected national politicians. True, as Moravcsik (2012) argued, each country surrenders some unilateral control over its domestic policy, but in exchange it secures influence over the policies of other countries that affect it. No one's democratic rights are restricted as long as the people of every member state freely choose to act in union, and cooperation preserves the same public

input and transparency that Europeans expect in domestic policymaking.

Encouraging democratic experimentation and innovation, the EU should create a broader European public space, with a more responsible civic debate, and a more citizen-centered communication approach.

4. Conclusions

With deeper interdependence and global challenges such as climate change, economic development and security, no country will be in a position to guarantee prosperity and security alone over the long-term. This era of convergence and greater relative peace may be followed by one of exacerbated nationalism if the expectations gap of European citizens is not narrowed by national and European initiatives to deal with the pressing issues of fundamental rights and participation in the political process, poverty and inequality, climate change, and to institute mechanisms to ensure greater transparency.

Today all the European states citizens feel that the European ideal is deteriorating. For the richer states it becomes too costly to rescue the weaker ones, and the weaker states consider that is not enough and, sometimes, the cost regarding the free choice and democracy is too high. However, they have to realize that a united Europe stands stronger in today's world, that its market size, technological level and democratic values remain a force of attraction, that the EU will remain without rival the most ambitious and successful example of voluntary international cooperation in world history, even though the European project is still a work in progress. A better communication with the European citizens may play an essential role in the improvement of the social climate underpinning EU policies. And the communication agenda must be predominantly centered on the fact that being together is better than being divided.

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AN APPROACH OF THE FISCAL UNBALANCES OF THE ADMINISTRATIVE-TERRITORIAL UNITS

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Abstract: *Fiscal decentralization promotes allocative efficiency and is expected to have an impact on macroeconomic governance. The potential benefits of fiscal responsibility by transferring the responsibilities to the territorial levels of government are increasing efficiency and reducing services information and transaction costs associated with the provision of public goods and services. Based on the principle of subsidiarity of public finances, public sector performances can be improved taking into account local cultural differences, environmental, economic and social institutions. A less severe economy – namely acceptance fiscal imbalances and higher public debt - can contribute to overcome the problems and improve economic performance, while public financial resources, which are scarce, can be channeled to finance economic development.*

Key words: *vertical, horizontal fiscal balance, disparities, budget, authorities*

JEL classification: H77, H71, H72

1. Introduction

The term fiscal balance refers to the balance between the responsibilities of the various levels of government and their ability to fund services that arise from these responsibilities. Transfers between the central government and administrative-territorial units include a horizontal component and a vertical one and is designed to solve two aspects of the fiscal imbalance.

Vertical fiscal imbalance is the difference between revenue and spending responsibilities between levels of government, namely between central authorities and those of the local government units. To correct the vertical fiscal imbalance, the central government mainly uses of remittances for public services premises:

Horizontal fiscal imbalance refers to the gap between the provinces and territories in the ability to generate revenue. The national equalization program is the main tool to overcome the disparities between administrative-territorial units. The objective of this program was enshrined in the is enrolled in the fundamental law of the state – the Constitution -, as well as in the organic laws.

2. Decentralization and local autonomy

General issue of local autonomy for the European countries covered European Charter of Local Self (Carta Europeană a Autonomiei Locale (1985) drafted and adopted by the Council of Europe in 1985 and ratified in Romania by Law No. 199 of 1997 (Legea nr.199/1997).

The term 'local community' covers simultaneously higher administrative levels (regional, county, district) and lower ones (city, municipality, village) of local autonomy.

Extent size of the tasks entrusted to local authorities varies greatly from one country to another. In most states, local authorities are responsible for what is called the rule *utilities*: lighting and the local road network, water supply and sanitation services, waste management, sports facilities and public gardens, cemeteries, social housing etc. Instead, the degree of local accountability in social, mainly in education, health and social welfare reveals flagrant disparities. Where applicable, all public services is financed from the state budget, the costs are allocated among the various levels of government or local budgets meet the total costs, except those related to central control.

Nature and extent of decentralization depends strongly on the degree of responsibility of the local budget in the social field.

Decentralization is not lacking, however, pitfalls. Due to increasing to the complexity in coordinating government activities when the lower levels of public authorities enjoy a great autonomy in policy making, the key challenge in the programs of the decentralization policy is to design and develop an adequate system of public finance for more administrative levels, in order to provide effective and efficient local public services, while maintaining macroeconomic stability.

Without special attention to the transparency and institutional clarity, intergovernmental fiscal relations may suffer from deficient coordination.

Imposing some rigid constraints on borrowing at the local level and monitor actual fiscal positions at the local level are also important prerequisites for a successful fiscal decentralization, together with the availability of expertise at the local level in order to effectively manage the growing amount of resources. (Fukasaku & de Mello, 1998)

In short, on the three traditional functions of public authorities described by Musgrave – the American economist Musgrave proposed a classification of relevant and generalized functions of the public finance: the impaired function, the function of redistribution, the conjuncture stabilization function (Văcărel Iulian coordonator, 2003), the traps of fiscal decentralization are closely related to macroeconomic stability and redistribution, while its benefits include gains in allocative efficiency. (Inman & Rubinfeld, 1997)

3. Financing of local budget expenditures

Financing of local budget expenditures vary greatly between countries, leading to differences between vertical imbalances, the average of the vertical fiscal imbalances being about 40%. However, vertical fiscal imbalances presents a high dispersion, ranging from accounting point of view, this heterogeneity is influenced more than the costs of administrative - territorial dispersion between countries than the dispersion of transfers and loans. Some authors (Charbit and Goodspeed, 2009) show that differences between the correlation tax revenues vs. transfers reflects country-specific structural factors, including the role of local authorities as providers of public goods and services, such as health services, regional imbalances, the externalities, the historical circumstances, collective preferences and institutional features (especially the establishment / their structure).

Local public debt

Although vertical imbalances are most covered by transfers, the loans of the administrative units are essential to understanding changes that occur as vertical imbalance. On average, the local budget's expenses related to public debt is financed almost entirely from transfers, their weight was almost zero, because local authorities are often forced to borrow respecting administrative procedures, explicit rules, financial market discipline or general financial rules (Plekhanova and Singh, 2007).

It is noted that most of the debt is contracted and/or guaranteed by the government, at the level of territorial units total net loan being very least consistent, neutral or even negative. This situation can be considered generalized to all democratic states and is produced on the part due to the national legal framework on indebtedness capacity of the territorial public authorities, on the other hand because of the lower ability leveraged localities. In this respect, it can be seen that the so -called " municipal credit " - loans that can be contracted by local authorities either from financial institutions - banks or non-banks – or from population, appealing to a financial brokerage company are limited by the legal provisions which establish the maximum amount that local authorities can access it, taking into account their own income, to establish repayment capacity of the financial obligations they have assumed.

4. The financial resources of the subnational communities

4.1. Income categories of administrative units

Local taxation is important for two reasons. Authority to change tax rates allows first local authorities to adjust their spending levels to local preferences and needs. Then, fixing the tax which every citizen must pay, forcing local officials to account about spending money.

4.2. Taxation for the use of public service

At the municipal level, the use of taxation is often as high as local tax, if we consider its efficiency and the impact upon the households. It lends itself less controversial as it is applied - and collected – generally in the subordinated or non subordinated enterprises of the public authorities. However, deregulation of prices - through which it is performed the first step to liberalize its from the tutelage of the authorities and to establish the competition between operators - and suppression of state subsidies tend to increase simultaneously generated invoices for rents, water and sewer, heating and public transport, while municipal responsibility in determining the tariffs.

National policy discourages, in principle, general grants, which often helped to keep down public services costs in the past, preferring to promote full-cost prices accompanied by the introduction of subsidies for low-income families, probably as equitable socially and administratively efficient.

4.3. Intergovernmental transfers

Intergovernmental transfers can take various forms:

- distribution of a share of central tax from the central authorities as:
 - a formula (for example, per capita);
 - according to the origin, ie directed to the communities in which they were collected.

Financial grants itself can be:

- grants or transfers targeted to cover specific expenditures, for example, social services, education, etc.;
 - untargeted grants or transfers, which can be used by local authorities discretionary
- amounts generally called grants. Subsidies are intended, in most cases to stimulate a certain type of expenditure considered of great importance by the central authorities.

4.4. Tax sharing between levels of government

Share taxes and contributions generally has two main objectives, namely vertical and horizontal balance. Vertical balancing is to reduce the gap between the cost of services delegated to the local authorities and the yield of those made directly by them. Horizontal balancing compensates the differences in per capita income or expenditure needs between the individual local authorities. In some cases, such as Sweden or Poland, the balance is funded in part through a horizontal redistribution, ie, the transfer of income to local communities with higher income than the average local income to communities that register income below average.

Grants play a decisive role in a large number of states, as it does ensure local resources in proportion to their responsibilities and ensure that the population of the poorest areas are not disadvantaged in a manner unacceptable to the quality of local public services. As a negative effect, dependence on grants threaten local autonomy and makes those communities to be subservient to the central political power.

5. Balancing methodologies of the sub-national communities budgets

5.1. Vertical fiscal imbalance and fiscal performance

When, at some level of government, there is a difference between own spending (total spending minus grants – the term of grant always refers to intergovernmental transfers, not interpersonal) and own revenues (which are determined as the difference between total revenue and intergovernmental grants received from other public authorities, which include both tax and nontax revenues) there is a vertical imbalance.

In general, the specialized literature emphasizes the risks associated with large vertical imbalances. A common view is that the vertical structure of the public sector budget can improve the constraint of the sub-national governments. Thus, it can generate additional spending and reduce fiscal effort, especially because you cannot fully internalize the cost of expenses and/or anticipate that their funding gap will be covered by additional transfers (Oates, 2006, IMF, 2009; Blöchliger and Petzold, 2009).

However, vertical gap closure is not always possible or even beneficial, because as long as the optimal degree of decentralization is generally higher for expenses than for income, it may allow some vertical fiscal imbalance. In addition, the grants can be guaranteed that such costs can be better controlled the sub-national expenditures, its can provide local authorities against possible shocks, it can be internalized wasteful spending or maintained redistribution/balancing targets.

5.2. Measurement of vertical fiscal imbalances

The literature used various methods of measurement of vertical fiscal imbalances. The dependence on grants is the most common indicator that measures the percentage of transfers in the budgets of administrative-territorial units total expense (Jin and Zou, 2002), as well as share in the budget administrative units total revenue (Rodden, 2002; Baskaran, 2010), or even as a share of central government revenues (Bahl and Wallace, 2007).

Vertical fiscal imbalance is defined as the share of budgetary expenditure unfunded by the administrative units own revenues. By definition, vertical fiscal imbalance can be covered by local loans and/or transfers received from other central government entities, both expressed as a share of local budgets own expense

This measure of vertical fiscal imbalance has a number of disadvantages. First, this approach extends the concept of dependence on transfers to subnational borrowing, but the loan is an important factor in the dynamics of vertical fiscal imbalance because of its obligation to repay, including the costs they generate.

Secondly, the indicator measures the lack of correlation between the degree of decentralization of expenditure and of income and this difference increases when the central authority forward responsibility for spending more than provide income. In the third one, vertical fiscal imbalance depends largely on the general consolidated budget.

6. Conclusions

Public finances differ significantly within the government levels, for several reasons. First, in terms of revenue mobilization, the tax base, which is effective and simple to run by the local authorities, tends to be lower and narrower (Bird, 1992). Non-tax revenues (usage taxes, rents, royalties, tariffs) tend to be limited in their ability to generate revenues.

Local tax bases are narrow because of the potential export taxes, externalities in the provision of public goods and services, factor mobility and economies of scale. Broad tax bases are better managed by the higher levels of the central government. As a result, if a territorial unit shall be a provider of public goods and services, it is required a higher level of jurisdiction to divide a part of their income to the territorial units to cover the gap between local expenditures and mobilized local incomes. Shared revenues to balance local budgets are also considering their different ability to collect own revenues.

Secondly, from the point of view of the management of spending, if budgets must be balanced, the expense of the territorial budgets is constrained by the ability to increase revenue of the territorial units, and by the revenue sharing vertically and/or horizontally. The optimal size of territorial units is, therefore, determined on basis of tax efficiency, given tax base area which is best handled by these jurisdictions and superior level of authorities' wish to submit expenditure responsibilities to local units. An important consequence of the above is the composition of local revenues play a crucial role in determining the level of autonomy over the spending management enjoyed by local units units.

Despite a greater autonomy in budgeting due to fiscal decentralization, territorial units tend to have limited power in hiring and managing local public debt. These limitations can be institutional, because of specific and/or based on the market budgetary rules.

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INVESTING IN INTANGIBLE ASSETS - A KEY SOURCE FOR AN ECONOMIC RECOVERY WITHIN A VOLATILE INTERNATIONAL CONTEXT

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Abstract: *Competitive intelligence and endogenous determined competitive advantage ask for a new paradigm that focuses mostly on intangible assets and on investments in such valuable assets. In new economics & knowledge-based society the real source of wealth and competitiveness is based on intangible assets such as intellectual capital and its components: human capital, structural capital and relational capital. The author of this paper considers that investing in intangible assets is one of the most important resources for Romanian economic recovery within the more and more volatile international context we have to face.*

Key words: intangible assets, economic recovery, competitive intelligence, intellectual capital

JEL classification: J24, P16

1. Introduction

MOTTO: "A new economy is upon us. The essence of this new economy is a deep and fundamental shift from physical effort to knowledge and intelligence as the primary source of value, productivity and economic growth." (Florida, 2002)

The topics of *intangible assets* and mostly the one that targets the investments in intangible assets are addressed typically within a cross disciplinary framework by various disciplines including: accountancy, sociology, psychology, human resource management, training and development, information technology and communication (Bontis, 2000) as well as by the management of research projects. Due to some of the sceptical reaction of some economists, in the past decades there have been many debates dedicated towards the methods for the valuation and measurement of intangible assets. Some economists still believe that intangible assets and mostly intellectual capital can be managed better if they can be first identified clearly and measured.

There is no doubt that we have entered a new era of development called within a complex and diverse semantic framework as: *creative era, network society, post-industrial society, knowledge-based society* etc. Whatever their names and differences, there is one major similarity between all these new kind of economies and societies: the *competitive advantage* within these has shifted more and more from tangible and financial assets to *intangible and non-financial assets* like *intellectual capital (IC)*. And based on the competitive intelligence and new competitiveness taxonomy the majority of the value added comes from the *endogenous determined competitive advantage* and less from the exogenous determined competitive advantage provided by the tangible/material resources endowment. The intangible economics is one autonomous domain and its importance becomes crucial mostly for a long-run smart, sustainable and inclusive society as the one provided under the auspices of *Euro 2020* framework.

2. Building competitive advantages & competitiveness from intangibles assets

"The empires of the future will be empires of the mind." Winston Churchill

In a speech at Harvard University in 1943 Winston Churchill observed that *"the empires of the future will be empires of the mind."* The old battles for natural resources such as oil are still important. But they are being supplemented more and more by new ones that highlight the importance of talent and brains power not just among companies but also among countries. For both the battle for talents and *brains power* is crucial for understanding better the state and possible dynamics of the *balance of power*. The world is dominated by the power of knowledge workers or more briefly express by *brainpower*.

Industries such as microelectronics, biotechnology, nanotechnology have no natural geographic home and will be located wherever someone organizes people and mostly their brainpower to catch them. This explains why many international organizations focus on the idea of *"putting people and their competence first"*. Accordingly the Competitive Intelligence (CI) approach *has developed a competitive*

analysis tool called “intelligence mapping”. It means to highlight on the map the intelligence resources that can be found in a particular country/region/industry/company (Fehringer, 2007).

Interest for intangible assets has become higher and higher in the last decades. Building competitive advantages from intangibles is fundamentally a problem of combining resources (both tangible & intangible) in a very distinctive and smart way by organizations. One of the key problems is to define a dynamic approach to competitiveness on the basis of implementing efficient organizational processes.

Based on the literature review we had identified that within a knowledge-based society there are *four key interrelated dimensions of competitiveness*:

- *Resources and inputs* (R&D investment, technology acquisition etc);
- *Intangible assets* built by combining resources. This can lead to specific *outcomes* such as: *knowledge, patents, brand names, reputation, networks* etc.
- *Management of process change*-one of the most important levels for implementing a dynamic view of organizational change.
- Development of *competitive advantage, efficiency and effectiveness* as key sources for performance both at the macroeconomic and microeconomic level.

More and more *the main sources of competitive advantage have become intangible*. "A central feature of the knowledge driven economy is the **increasing importance of intangible assets**, such as human capital, intellectual capital, R&D, brands, contacts and know-how, as a source of added value and profitability for companies. Measurement of their value and the rate at which they depreciate is therefore much more difficult. Valuation is especially problematic for the human capital embodied in the workforce, which for more and more companies is **a major source of competitive advantage**" (*Building the Knowledge Driven Economy*", in "The UK Competitiveness White Paper", December 1998).

According to the new vision supported by *endogenous growth theory* and other modern approach traditional factors of production, like natural resources, labour and capital have diminished their significance. At the same time the importance of intangible assets, like information, knowledge and creativity has increased and is expected to increase more and more. Intangible investments are important factors of competitiveness. While land, capital and labour all follow *the law of decreasing returns*, *knowledge, intellectual capital, information and other intangible assets* enjoy *increasing returns to scale* instead. The consequences of these are important. *Under the more and more volatile international context* any small victory in the competitive battlefield can now cause unpredictable avalanches of change in the competitive landscape. This is about "*positive feed-back virtuous circle*" and not about the traditional "*negative feed-back and vicious circle*".

The *intangible economy* is not synonymous for many authors with information and knowledge economy. It is as much an economy of "*useful*" information and knowledge as it is of entertainment. The intangible economy is seen as *the triumph of bits over atoms*. This is an oversimplification. More importantly, *the intangible economy* transcends the opposition between *bits, bit-coins* and *atoms* the same way that *quantum physics* transcends the opposition between particles and waves.

This approach had been developed mostly by *econo-physics* that brings a new *perspective* and paradigmatic approach for Economics sciences under the umbrella of *the science of complexity*).

In order to understand better the intangible economy, some authors had suggested to debate it at least from three different perspectives:

- *Demand perspective*: intangible artefacts: final output for consumption.
- *Supply perspective*: intangible assets, used by firms to establish and maintain their competitive position and survival. They include: the brand, the intellectual property, the human capital, research and development information and know-how.
- *Economic system perspective. Logic of dematerialisation*: an interrelated set of trends and forces that affect all economic activities, changing the nature of economic transactions and market structures.

For an effective and efficient use of intangible assets as the new engines of wealth creation in a knowledge-based society we have to move away from previous engines of the industrial economy, which itself replaced the agricultural economy.

Intangible assets are defined by Arthur Andriessen as: "*...resources controlled by the enterprise [...] which possess the following attributes: non physical in nature; capable of producing future economic net benefits; protected legally or through de facto right*" (Andriessen, 2000).

Intangible assets constitute almost 80 % of the stock market value of modern corporations. Baruch Lev, a professor of accounting at *New York University*, argues that *intangible assets* ranging from a skilled

workforce to patents account for more than half of the market capitalization of America's public companies. *Accenture*, a management consultancy, calculates that *intangible assets* have shot up from 20% of the value of companies in the S&P 500 in 1980 to around 80% and even more today. McKinsey formulates a similar point of view but in a different way. The consultancy has divided American jobs into three categories:

- “*transformational*” (extracting raw materials or converting them into finished goods);
- “*transactional?*” (interactions that can easily be scripted or automated);
- “*tacit*” (complex interactions requiring a high level of judgment).

McKinsey argues that over the past six years the number of American jobs that emphasize “*tacit interactions*” has grown two and a half times as fast as the number of transactional jobs and three times as fast as employment. These jobs now make up some 40% of the American labour market and account for 70% of the jobs created since 1998.

The increasing importance of intangible assets is shown by the fact that in many sectors *investments in intangible assets* are now much greater than those in fixed capital equipment.

The *real wealth of nations and organizations* has to be sought in *the people, their knowledge and skills*, internal processes and the company's reputation. More and more, statistical offices are faced with the problem of *mapping and measuring the growth of today's economy*.

Moreover, there have been initiated several projects, aiming at developing indicators for the knowledge-based economy (Brusoni, 2000). An important category deals with measuring the intangible assets.

3. How to measure intangible assets?

It becomes clear that *the importance of intangibles* is neither a necessary nor a sufficient condition for measurement. Stewart calls the phrase 'You cannot manage what you cannot measure' “...one of the oldest clichés in management, and it's either false or meaningless. It's false in that companies have always managed things – people, morale, strategy, etc. – that are essentially unmeasured. It's meaningless in the sense that everything in business – including people, morale, strategy, etc.–eventually shows up in someone's ledger of costs or revenues” (Stewart, 1997, pp. 291). More and more “*an ever increasing share of GDP resides in economic commodities that have little or no physical manifestations*” (Youngman, 2003, p. 31).

The value of a *Pentium Processor* is not in the physical weight of the product itself (the material substance). The real value lies in the knowledge and skills of the people who made the products, and in *the marketing power* of the companies to sell the products. These are all *intangible assets*.

At the European level *Eurostat* has developed a *classification proposal concerning intangible investments*, in association with national statistics institutes, in particular with *CBS, Statistics Netherlands*. Together with *CBS, Statistics Netherlands* have published the study “*The role of intangibles in the competitiveness of industry*”.

There are a lot of methods used to measure intangibles. Overviews by Sveiby (Sveiby, 1997), Bontis (Bontis, 1999) and Andriessen and Stamma (C. Andriessen, D. Stamma, 2004) identified over 30 different methods and there are many more models out there. The enormous amount of methods is probably the result of the fact that “*Intangible assets and Intellectual Capital research has primarily evolved from the desires of practitioners*” (Stewart, 1995). Great progress has been made in creating sophisticated measurement tools and methods. Now we present briefly just four of the main methods used for measuring intangibles:

- *Direct Intellectual Capital methods (DIC)*. Estimate the monetary value (called symbolically \$-value) of *intangible assets* by identifying its *various components*. Once these components are identified, they can be directly evaluated, either individually or as an aggregated coefficient.
- *Market Capitalisation Methods (MCM)*. Calculate the *difference between a company's market capitalization* and its *stockholders' equity* as the value of its intangible assets.
- *Return on Assets methods (ROA)*. Average *pre-tax earnings of a company* for a period of time are divided by the *average tangible assets* of the company. The result is a company ROA that is then *compared with its industry average*. The difference is *multiplied by the company's average tangible assets* to calculate an *average annual earning from the intangibles*. Dividing the average earnings by *the company's average cost of capital* or an *interest rate*, one can derive an *estimate of the value of its intangible assets*.

- *Scorecard Methods (SC)*. The various components of intangible assets or intellectual capital are identified and indicators and indices are generated and reported in scorecards. A *composite index* may or may not be produced.

The methods offer *different advantages* and *disadvantages*. The methods such as ROA and MCM are useful in *merger & acquisition situations* and for *stock market valuations*. They can also be used for *comparisons between companies within the same industry*. Their *disadvantages* are that by *translating everything into money terms* they can be *superficial*. Several of them are of *no use* for *non-profit organizations, internal departments* and *public sector organizations*—this is particularly true of the MCM methods. The advantages of the *DIS* and *SC methods* are that they can create a *more comprehensive picture of an organization's health* than *financial metrics*. Since they do not need to measure in financial terms they are very useful for non-profit organizations, internal departments and public sector organizations. Their *disadvantages* are that the *indicators are contextual*, which *makes comparisons very difficult*.

Much of the international research that has been done in this area is considered by many people theoretically interesting, but unfortunately impossible to be applied and to become useful for managers. It is no problem to design indicators, the problem is how to interpret them.

The research in *Human Resource Costing & Accounting* has brought forward some interesting Swedish projects (Telia, 1994). An argument for information systems like *Economic Value Added (EVA)* that relate profits or cash flow to tangible *assets*, capital employed is that only by focusing on tangible flows are shareholders guaranteed that management will create "*share holder value*". They may perform as reminders for the CEO to keep share holder interest in mind, but it is dangerous – as some enthusiastic supporters argue – to use such ratios for operational control. They do not shed light on the whole range of *intangible assets* that exist, and they are not useful as management information systems monitoring the progress of a business. As some best practice examples have proven it is possible to create superior share holder value by not focusing on the tangibles, but on the *intangible assets*.

Depending on one's perspective any indicator is subject to a large number of possible interpretations, so the coherent conceptual framework is the fundament that must be built first.

4. Investment in intangible assets and non-financial measures

When a company invests in material assets like machines, or computers, the money is paid out of liquid funds, and a corresponding amount is booked as an asset on the balance sheet under a heading like "*machinery*". In accounting terms, there has been a negative cash flow, but no expenditure. The cost is incurred gradually, as the asset is depreciated. When a company invests in an *intangible asset* like *education & training* or *a research program* or an entrance to a new customer segment, it is not generally permitted to record the value of the research as an asset on the balance sheet. The investment thus appears both as a negative cash flow and as a cost item. Both types of investment are inspired by the same motive: to achieve higher profitability in the long term, by sacrificing cash flow in the short term. The difference in accounting treatment, however, is very confusing and is made more so by the fact that the "*cost*" of *intangible investments* can take forms other than direct payments from cash reserves. It may take the form, for example, of accepting an assignment that yields little cash revenue but has great publicity value, or seems likely to enhance competence. The *intangible asset* is "*financed*" by "*invisibles*". Expenditure on R&D generates value-added, which is clearly owned by the company, so it is reasonable to regard such expenditure as investment. True, the economic value is uncertain, but the same can be said of any investment, as many investors have learned the hard way in recent years due to the word complex crisis and its hard way to get a reasonable way to manage this kind of complex crisis.

Many commentators insist *training and education costs* should be viewed as investments, but to whom or what does the value created by such investment adhere? When individuals pay for their own education, they are investing in their own personal human capital, but when such education is paid for by the company, the link between payer and asset is broken. The company is paying for an asset it will not own. Individual competence is "*owned*" by individuals, not companies so, from the company's point of view, money spent on educating employees should be treated as a cost, not an investment. It is tempting to try to design a measuring system equivalent of double entry bookkeeping with money as the common denominator. It is an established framework with definitions and standards and therefore "*common sense*". But as Voltaire said once "*common sense is not so common*" and we consider that we should break with exclusive financial measures in the case of intangible assets. If we measure the new with the tools of the old, we will not "*see*" the new. Any measurement system is limited by *Heisenberg's uncertainty principle* (1927) which says that it is impossible to measure simultaneously the speed and the position of particles.

The physicist Bohr (opposed by Einstein) argued that this means that the observer is always involved in the measurement and that the physical world does not have well-defined attributes. If truth is in the eye of the beholder in the physical world it is even more so for the world of business. There is no difference between money measures and other measures. Both are uncertain and all are dependent on the observer. There exist no "*objective*" measures. The main reasons why the money measures seem more "*objective*" and "*real*" are that they are founded on implicit concepts of what a company is and that the measures have been around for so long that they are guided by definitions and standards. *Money is merely a proxy for human efforts*, and the 500-year-old system of accounting sheds little light on the vital processes in organizations whose assets are becoming largely non-monetary and intangible. We consider that within a *knowledge-based organization* there exists no comprehensive system that uses money as the common denominator and at the same time is practical and useful for managers. Knowledge flows and intangible assets are essentially non-monetary.

5. Intangible Assets Monitor Framework

Sveiby suggested a framework based on *three families of intangible assets ("Family-of-three")* (Sveiby, Lloyd, 1987):

- *External structure* (brands, customer and supplier relations).
- *Internal structure* (the *organization*: management, legal structure, attitudes, R&D, software).
- *Individual competence* (education, experience).

Now there are presented briefly some of the most important characteristics of each component of the intangible assets family of three.

- *Individual competence* is people's capacity to act in various situations. It includes skill, education, experience, values and social skills. People are the only true agents in business; all assets and structures, whether tangible or intangible, are the result of human action. Competence cannot be owned by anyone or anything but the person who possesses them.
- *Internal structure* consists of a wide range of patents, concepts, models, and computer and administrative systems.
- *External structure* consists of relationships with customers and suppliers, brand names, trademarks and reputation, or "*image*".

The reasons why the value of a relation seems invisible today is because it does not have a generally accepted definition and that it is not measured according to a standard. This "*Family-of-three*" model and corresponding theory about measuring intangible assets was developed by a Swedish working group in 1987 and published in a report in Swedish language and later in a book. More than 40 Swedish companies measured and reported their intangible assets according to these principles in 1995.

The theory was further developed for management information purposes which is called the "*Intangible Assets Monitor*", (Sveiby,1997).

An internationally well-known approach is the "*Balanced Score Card*" , developed in the USA around 1990, independently from the Swedish efforts at the time.

BSC is not designed specifically to measure and publish intangible assets, only to take a more "*balanced view*" on internal performance measurement. There are some similarities between the two theories. Both theories suggest that non-financial measures must complement the financial indicators, mostly in the case of intangible assets. But there are also some important theoretical differences.

The *Intangible Assets Monitor* is based on the notion of people as an organization's profit generators. The profits generated from people's actions are signs of that success.

Human actions are converted into both tangible and intangible knowledge "*structures*". These structures are directed outwards (external structures) or inwards (internal structures). These structures are assets, because they affect the revenue streams. BSC does not make this assumption. While *the Intangible Monitor Asset* is based on a "*knowledge perspective*" of a firm, Kaplan & Norton regards the notion of the firm as given by its strategy. They just want managers to take a more "*balanced view*": "*The Balanced Scorecard complements financial measures of past performance with measures of the drivers of future performance. The objectives and the measures of the Score Card are derived from an organization's vision and strategy.*" (Kaplan, D.P. Norton, 1992, pp. 8).

In a knowledge economy people should not be regarded as costs but rather revenue creators and that knowledge or people's competence are sources of wealth creation. If the notion of people as revenue creators is accepted, we have to come closer to "*the source*" of their knowledge if we wish to measure it more accurately. In 1993 Leif Edvinsson combined the two theories, the Konrad conceptual framework and the Balanced Score Card. He applied a *Balanced Score Card* presentation format to the Konrad - theory

and published it in a supplement to *Skandia's Annual Report*, using for the the word, "*Intellectual Capital*", instead of the accounting term "*Intangible Assets*" (Edvinsson, Malone 1997). Some authors have suggested the extension of the general framework to determine the value of intangible capital at the macroeconomic level. We will present now some *best practice examples of how to measure intangible assets*.

6. Best practice examples of how to measure intangible assets

In the EU countries there are many examples of best practice. We briefly present now the case of *UK, Germany and Italy*.

• *United Kingdom*

The UK government's recognition of the growing importance of the intangible assets was first evidenced in a document from 1997 entitled "*The UK's Investment Performance: Fact and Fallacy*".

In the *UK Competitiveness White Paper* published in December 1998 "*Building the Knowledge Driven Economy*", there is a special dedicated chapter on "*intangible issues*". In its implementation plan of *the White Paper*, three projects form a sort of "*Intangible program*". Each of the projects approaches different aspects of actions outlined in the White Paper: *Accounting and company law Project; MARIA Project; Research Project: Conduct long-term research into the measurement and valuation of intangible assets*.

UK Government, in its attempt to improve methods of valuing and better guiding the intangible assets, has created the *UK Accounting Standard Board for Intangible Assets (ASB)* and the *Institute of Chartered Accountants in England and Wales (ICAEW)*.

• *Germany*

In Germany, there is no specific *Intangible Assets (IA)* agenda. German government put a strong emphasis on *investments in intangible assets* developments, but it seems that there is no "*Intangible Action Plan*" such as in *Sweden* or *Netherlands*. However Germany has several research groups that work on intangible issues. Such a *Working Group on Intangible Assets is The Fraunhofer-Gesellschaft* that deals with *intangibles and knowledge management* being involved also in the *MAGIC project (Measuring and Accounting Intellectual Capital)*.

• *Italy*

Italy appears to be in the same situation as Germany. Investments in knowledge are said to be a top priority but there is no specific awareness nor specific policy and agenda concerning intangible assets.

In May 1998 *CSELT (Centro Studi e Laboratori Telecomunicazioni spa)* has started an internal project called "*Intellectual capital*".

7. Managing intangible resources within a knowledge-based organization. Making the intangible „visible”

A real *competitive knowledge-based organisation* has to integrate the issues of intangibles assets within and to focus on:

- the organisation's project and the quality of its knowledge creation and development;
- the organisation's image, its brands' impact and the singularity of its identity and strategy;
- *the capacity to activate human resources over a long-term period and durable performance.*

Management of Intangible Resources-MIR-depends critically on: who manages the knowledge capital; the extent to which the management of knowledge capital can generate profits; by whom and to what extent trade in knowledge assets can take place.

Organizations that use their knowledge as a source of competitive advantage are called *knowledge-based organizations*. Knowledge has become the primary ingredient of what we do, buy, and sell. MIR have to articulate three components: resources and competences; functions; processes. *Intellectual capital* is at the heart of the MIR scope and may contribute substantially in making the intangible visible (Itami, 1987).

8. Conclusions

Intangible resources and intellectual capital are essential pre-requisite for sustainable competitive advantage and long-run development. Management of intangible resources & management of intellectual capital are essential for competitiveness, both at the micro and macroeconomic level. The paper presents some new approaches and some best practices that demonstrate *the role of intangibles & intellectual capital for sustainable development and competitiveness*. Building *sustainable competitive advantages* based on *intangibles assets* is fundamentally a problem of combining both tangible and intangible resources in a very distinctive and creative way by organisations.

New Economy requires new ways to measure both tangible and intangible assets. Measurement systems can be used for control or for dialogue. As language for dialogue, metrics and benchmarking are excellent, because they force us to define relationships mathematically and to be stringent. Well designed indicators based on a coherent theoretical framework are like the words and the syntax of a language. It might help open minded managers understand how the relationships between people and profit look like in their company. Unfortunately in Romania many organizations and companies requests for control systems tend to focus on the control aspect. Romanian managers have to install new measurement systems trying not to miss the importance of their staff as the source of revenue creation. Our organizations and people within them need more *creative space* and they need systems that support a more open dialogue that can contribute more to companies strategies supportive for a long–run sustainable competitive advantage. Using *intangible resources* to create organizational value presents a significant *challenge* that has not been addressed sufficiently in the Romanian literature yet.

Future work would have to make operational these dimensions in Romania and to conduct empirical study based on knowledge sharing and dialogue in research cross disciplinary teams.

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2. Management: New Coordinates and Challenges

GREEN ENVIRONMENTAL TAX REFORM FROM SUSTAINABLE DEVELOPMENT PERSPECTIVE

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Abstract: *The greenhouse effect and its associated problems (relations between climate change, environmental pollution and socio-economic aspects) requires policies oriented to a sustainable use of natural resources as well as in the direction to reduce harmful environmental impact.*

In this context, the Environmental Tax Reform (ETR) reveals the way of a transition process from so called "positive" aspects (employment, income, investment) to the "bads" issues (pollution, waste depletion of conventional energy).

Taking into account different approaches of weak and strong sustainable development, it becomes possible that ETR is an conceptual and strategic tool aimed to modernization of fiscal system as well as to a continuous restructuring mode of thinking and action as a way from Eco-Efficiency to Eco Innovation.

Keywords: sustainable development, environmental taxation, green innovation

JEL classification: H23, O32, P28

1. Introduction

A possible starting point for the communication of front is the approach of environmentally harmful subsidies and environmental taxes.

In this context, the official documents of international organizations (OECD) as well as within the EU strategy of sustainable development (in so-called 20-20-20 measures package related to reduce pollution, consumption and renewable green energy) illustrates the need to address the and subsidies and taxing on natural environment environment.

Firstly, with regard to the greenhouse effect and its associated problems an instrument used in international experience is the reform of so called environmentally harmful subsidies (EHS).

Based on the subsidy definition as a general economic concept, EHS is as a consequence of the public authorities politics that confers a benefit for both producers and consumers with a view to supplementing income or decrease of costs but by these are generated problems related to the impact of natural resources cost/price from the point of the real shadow pricing both on competition market place and the internalising the environmental externalities that affects the socio-economic groups interests (economic agents, consumers, Labour Unions, NGOs, politicians, citizens).

In this framework, the technical approach of EHS highlights three possible tools –the OECD experience:

-The Quick Scan Method by means of which it has been shown that there is no direct link between the amount and nature of the subsidy on one hand and the impact on the environment on the other.

-The Classification Method which enable the public authorities to analyzing probability and possibility of eliminating subsidies affecting the environment;

-The integrated Assessment Method which includes the perspective of sustainable development ensuring incorporation in the context of the environmental analysis of social and economic aspects.

In essence, the three methods illustrate the important synergistic analysis of economic, social and environmental aspects, taking into account the necessity of defining the essential characteristics and ultimate goals subsidies which generates both theoretical problems and (the assessing the composition, structure, efficient and final environmental nature of subsidies in order to draw up an optimal size and their spatial, temporal, intentional and actional impact), and practical issues (related to labor productivity, public goods, and the social pattern of welfare subsidies or with respect to and new green technologies and industries).

Based on these methods have been developed one specific manuals and at the EU level as for example the Impact Assessment Guidelines.

Secondly, the environmental problems call for a specific public authorities instrument – the environmental tax - designed to reduce environmental impact and to stimulate energy efficient exploitation of renewable natural resources (such as solar energy, geothermal or wood biomass) and non renewable

fuels (fossil-oil, coal) in order to ensure profit maximisation of economic operators and social welfare and the and the population.

At first sight, taxes to the environment in the form of payments due to the state budget levied on consumption of energy and fuels, in the managerial process of exploration, exploitation, final use of resources, waste disposal and emission greenhouse gas (OECD, 2011)—a fixed amount in the form excise duty and royalty payments within the framework of a classification structure essentially comprising three main groups:

- taxes applied on energy products used for transport- gasoline and diesel fuel);
- transport fees(taxes linked to the ownership and use of motor vehicles);
- pollution and packaging taxes applicable to the products and with the potential to develop chemical noxes, as well as to exploitation of natural resources other than those which are used as a source of energy-for example wood-)
- taxes on resources or royalties on mineral resources fact that raises legal, economic and fiscal issues on the relationship between the owner of natural resources(the state) and "tenant farmer" (the exploration and exploration company).

Environmental taxes are a tool that can influence consumption of renewable and non renewable energy: in the context of limited character of conventional energy resources and the pressure of improving the civilisation society status demand becomes necessary the substitution of classical conventional fuels (petroleum or coal), with third forms diversified of non renewable energies (solar energy, wind energy, tidal energy, hydraulic energy of the water, water thermal energy, biomass).

In this respect, as mentioned some researchers such as Anca Cristea (2011) or Emilian M Dobrescu (2013) the of essence environmental tax analysis consists in presenting it as a payment which influence the economic agent behavior in a research methodology framework centered on essential material traits analysis of material composition, structure and optimal flows of primary energy generated by the natural capital elements(the sun, water geothermal, wood biomass of forests) transformed by the specific conversion mechanisms in socio economic sustainable energy which in turn sustains the economic maximization objectives of profit maximisation of economic agents and raise the quality level of life in human habitat.

Thus, in a narrow sense the taxes and subsidies on the environment illustrate qualities but also limits, which can be used in the form of a portfolio optimal structure with a view to stimulating pollution reduction and waste management, opening the opportunities for the development of new green and clean efficient technologies markets.

In a large sense, the environmental subsidies and taxes are related to the of so called green economy objectives- to stimulate the economic, ecologic and social aspects of innovation-competitiveness of products, a natural resource management of analysis, evaluation and effective valorization of compositional, formal, efficient and final of natural resources characteristics and reducing the absolute and relative material consumption intensity level, developing an optimal mode of thinking as well as multidisciplinary skills in team working. (ICC, Commission Task Force on Green Economy (2011).

Within this framework, the environmental taxes are more than just a simple fixed payment due to the state budget - it is a tool that can influence the behavior of companies through optimal relative pricing of economic goods as well as through the multidisciplinary communication social processes associated with the specialized or holistic use of natural capital in interconnection with economic, accounting, financial, technology, human, information.

All of this illustrates the need to expand environmental tax analysis by taking into account specific characteristics of sustainable development concept as a road from eco efficiency to eco-innovation.

2. The general approach of the environmental tax - perspective of sustainable development

As it is known, the sustainable development theory is related to the controversy between the principles of weak sustainability versus strong sustainability, optimal mitigation versus precautionary actions, optimal economic rationality versus complex adaptive intelligence as stated by official documents of UN Brundtland Report on sustainable development (1988), the Rio de Janeiro Summit on climate holistic complexity principles and the 21 Agenda Strategy (1992) or the Kyoto Conference on market environmental externalities principles (1997).

In this context, the green colour of environmental taxes reveals different forms or nuance shades (in the form of a transparency economic structural, a green alive dynamics of entrepreneurship or the green fotosynthesis energy transformation processes) as well as a specific impact on utility, efficiency and profit maximisation objectives to reduce pollution, technological development and to cultivate both a responsible

optimal behavior organisational culture of economic agents as well as to encourage consumers to these processes within the road from eco efficiency to eco innovation.

Eco efficiency, or the ability to use natural resources and the environment for the purpose of meeting in a weak or strong manner the human needs-is a concept derived from general concept of efficiency (qualitative general status of practical needs of using resources and time), is in the same time a principle with finality economic, social and environmental illustrated by static and dynamic features of events.

In the sustainable development approach, time reveals both weak and strong facets of reality (time as a place of the events meaning the aprioric static reality characterized by concrete-essential features of compositional, structural, efficient and final goal of natural resources management versus the time as a driver of events in the form of a social multidisciplinary process, result of imagination).

On the basis of the stock or flow items of sustainable development, environmental taxes are the consequence of the specific way of thinking the relationship between nature, economy and society in the context of a special action area not necessarily geographically delimited but as an operational strategic space of messages.

In the essence, this area illustrates the specific functions of economic agents: they are found in the situation to explore, analyze, transmit and make the best use of a large, structured and various portfolio of informations with regard to the usefulness, efficiency and profit obtained from the natural resource inputs optimal utilisation, either taking into account the social context of behavioristic entrepreneurship of social learning, coordination effect and creative destruction rules.

So, at the first sight, in practice, the environmental taxes are the result of resulting from the stock and flow accounting indicators taking the form of Adjusted Value-Added Taxation Eco-friendly Adjusted Capital Formation, the Ecological Footprint or in the form of Absolute or relative Dematerialisation Taxes related to minimizing the composition, structure and intensity of material inputs utilized.

Eco efficiency is central to the sustainable development strategies but is not a panacea.

In the literature there is the opinion that the increase the of efficiency per unit of the product or services lead to reduction of market prices which causes an increase in demand and hence of production and supply on the market will face with the adverse effect on total energy consumption of natural resources.

It is the essence of so called effect rebound inspired by the classic paradox of coal consumption machine illustrated by S. Jevons.

At present, as mentioned some authors as well as Dorothy Maxwell and Laure McAndrew (2011), Horace herring and Steve Sorell (2010) and Pierre Carmela Cucuzzella Coninck (2008) the effect of sustainable rebound illustrates both weak and strong sustainability aspects, revealing the

From this point of view on the one hand the rebound effect reveals the importance of income and substitution effects with respect to the directly, indirectly and generalized impact of technical improvements on the need for remodelling the consumption structure and factors of production utilisation in order to achieve the same level of effectiveness, efficiency and profit.

On the other hand the effect of rebound shows the importance of socio industrial entropic metabolism the absolute and relative dematerialisation.

3. Environmental tax reform – as a road from eco efficiency to eco innovation

However the approach environmental taxes does not stop here.

As mentioned by some authors like Gjalt Huppes (2007), the approach of environmental taxes needs not only an optimal or normative approach but also another type of approach related to a strategy oriented to the creation of goods and services with a high-intensity and physical information via the use of cost effective technologies but also by the need for training organizational culture environment-taking into account the road from idea to market success.

In other words, appears the perspective of the green (eco) innovation.

In this framework, as it is well known innovation itself is the result of intentional process of conceptualizing, assessment, instrumentation and testing with success of an original idea which generate in the end a novelty in the field of theoretical and process-orientated methods within the production and marketing of goods and services which incorporate value added in economic (efficiency), financial (profit) and labor (utility) terms.

From the point of view of front, the concept of innovation is also called green innovation which reveals that form of capital good (financial, technologic, human, material) that provides either an effective improvement of the production process generating positive effects on social economic and natural

environment with the creation of new goods and services that incorporates environmental value-added as well as by making the environment including the one of social process which ensures and dynamize organizational culture, i.e. open possibilities of human capital development for the purposes of improving professional team cooperation.

In other words innovation green notes several facets of manifestation which show both conceptual aspects as well as practical application.

So, in the first place, in terms of sustainable development durable, the green innovation highlights the different conceptual issues related to triple bottom line versus triple top line innovations, the importance of environmental regulation and structural economic innovation aspects as stated by M. Porter and J. Hicks as well as the social learning of Shumpeterian world.

Secondly the green innovation reveals also practical aspects (illustrated by financial perspective and strategic perspective) with regard to:

- Financial aspects of innovation inspired by structural finances of firm and project management (about attracting hedge risk bearing pull venture funds from the financial markets or within the framework of an organized context of a team responsible for the carrying-out of a project);
- Strategic aspects related to the impact of change of the manufacturing technology and professional skill development in a gradual or shock therapy and of the occupational taking account of the realities of lock-in technology, as well as the issues generated by actors involved in the inovational process (economic agents, consumers, public authorities).

Thus, it is to consider the differences in competitiveness between Western companies of type profit and those oriental type family (the latter being concerned so much more on assessing their loyalty company values but also in the direction of human capital skills development).

In the same time, the social context of culture and civilization shapes consumers preferences but also their capacity to connect with productive and social innovators either within the meaning of anticipation or social conformism related to the future usefulness a good or service.

The last but not the least, it is to important to consider the political institutional aspects of innovation related to alievate the constitutional conflicts of the environment as well as in a political agenda framework.

For example in the European Union it is questioned the possibility the development of an of Technological Platform between rational autonomous economic agents ratioanali and multidisciplinari as well as the well known aspects related to the integrative holistic aspects of European Research Area .(Philip H. Hoff (2011) and Carrillo-Hermosilla Solana and Pablo del Río González (2009).

In a narrow sense, to the environmental taxes are presented in the form of payments due to the state budget levied on consumption of energy and fuels, integrated in so called market-based instruments (emission trade schemes regulations ,subsidies, environment standards, management systems, voluntary agreements for the environment or educational campaigns and information).

Viewed from the perspective of sustainable development environmental taxes constitute economic endogenous-structural and entrepreneurial mechanisms within a network network of relationships between natural environment, society and economy.

In this context, some reserachers like Gjalt Huppes (2001), Pierre, Romelaer; Gilles Lambert (2001), Mariana Vuta (2006), Paul Ekins (2009), Börje Johansson and others (2007) or other studies carried out under the auspices of international and European organizations OECD(2011) or European Agency of Energy (2011), environmental tax reform illustrates the process of transition from taxing and subsidizing aspects deemed "positive" (employment, income, investment) to the "evil" (contamination, waste, depletion of conventional energy).

In this framework the so called ETR (Environmental Tax Reform) means both the modernizing the fiscal system and changing the socio economic behavior.

Taking into account the principles of sustainable development as well as the road from eco efficiency to eco innovation the ETR could be either a R&D (research and development) or L&D (Learning and Development) possible management of natural resources related to:

- the fundamental principle questions related to weak or strong sustainability, the Aristotelic principle of matter (as a compositional and structural possibility in searching of an efficient form of manifestation that leads to a final goal),or the scientific research management Savoir c'est Prevoir;
- environmental social and economic externalities (in so called the double dividend issue related to better environmental regulations, intertemporal optimisation of competition and employment decisions and increasing and reshaping the relationship between capital and income taxes) as well as in the context of the framework that the environmental taxes means those instruments of economic policy aimed at to

stimulate the economic competition, green employment and better environmental regulations reducing environmental impact and foster innovation structural-economic, social entrepreneurial, multidisciplinary complex:

- institutional coordinates of social entrepreneurship meaning the stimulating the so called behavioristic additionality and the financing role increasing of NGOs as in the case of European Space Area ;
- the politics of green innovation meaning the rule of law in the field of environmental, social and economic issues, the importance of liberal economic accountability of natural capital potential evaluation as well as the importance of social networks partnership.

4. Conclusions

In conclusion green tax reform from sustainable development perspective means process to modernize the fiscal system for restructuring the thinking and action of rational but social related economic agents in the way from eco efficiency to eco innovation meaning either a R&D or a L&D management of natural resources.

Nature is an environment of life as an productive capital related to other forms of social economic forms of capital (technology, finance, labour, knowledge) generating both utility, profit and efficiency as well as the open possibilities for development of human capital professional skills in the exercise of social learning to features made in today's economy and social utility generating human, profit and efficiency as well as improving possibilities professional year in the social communication.

At the same time, the nature invites to a admiration exercise: the fact that the nature another gives what the man has fundamentally needs-oxygen to receive from man what the nature also need-carbon dioxide, it is a mystery of the creator of the Divine Creator that makes a jewel from nothing-the human being and the whole nature- expression of an everlasting love more than it can be imagined.

From this point of view, on the basis of common sense intelligence (Latin word Intellegentia composed of inter = between and legere= to choose) in the approach of environmental taxes becomes essential to develop human capital capacity to solve optimally problems, to think in a synthetic and essential way, to learn and adapt as well as to take into account aspects related to:

- the principle of Aristotelic matter as a possibility seeking a concrete form to express and by shape to seek a final goal;
- fundamental principle of the Science Research Programmes Management Savoir c'est Prevoir;
- the last but not the least to the Orthodox Christian principle called Creatio ex Nihilo with the final goal to a continuous restructuring of life to become compatible to receive and give the necessary help in a free choosing but responsible loving way in the network relationship management between nature, society and economy (Vladimir G. Tijana Ivancevic T.Ivancevic (2009), Nae Ionescu (1943), Constantin Radulescu Motru (1930) or priest Professor Dumitru Staniloaie).

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THE MANAGEMENT OF WORKING GROUPS – RECEIVERS OF COMMUNICATION AND PROMOTERS OF CHANGE AND PERFORMANCE IN THE MANAGEMENT OF ORGANIZATIONS

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Abstract: *Communication is not a purpose in itself, but a unique way to combine the efforts of people towards the major goals for each stage of development in society:*

- **change** - the fundamental dominant feature of this century - which was imposed, especially due to the rigidity of economic systems, a result of monolithic, inflexible, organizational structures, which slow down change and communication, creation, stimulation of people’s creativity, due to the use of outdated concepts about the role of business markets and the place of the customer, due to obsolete bureaucratic, authoritarian and communication-restrictive organization charts, which are damaging for the efficiency;
- **the only structure** that exists, created especially by people in response to their affiliation and performance needs, are the **working groups** called frequently teams (although the terms do not overlap) which have already reached the performance of becoming the framework in which the **majority of the active population works**;
- **however**, although, according to the most knowledgeable experts in management, “there are no rich countries and poor countries, but well-managed countries and countries poorly managed” and that “management is the main way of growth” and “the import of knowledge management is becoming more important than importing technology”, there has not yet been created the subsystem of the general management of organizations, the “Management of working groups”;
- from the laborious **research**, conducted to convince us about this deficiency, we were not able to find, not even in the foreign literature, such a management system, which is much needed;
- **instead**, we identified a specialty literature in the field of psychology and sociology of labor, of an unexpected value and extent that, unfortunately, was not integrated into the organization’s management, although, as we found, has inestimable value from the perspective of human association and contribution to performance, much needed in the era of knowledge, of knowledge capital, (the most modern and efficient form of capital), of the intellectual capital, the people in working groups representing the depositary and users of knowledge;
- **it is true** that in the sources consulted, we identified also books or other papers, entitled “The Working Groups Management”, but they contained only psychological and sociological research findings without any integration into the management organization and, as a result, as expressed unequivocally by specialists, if they are not to be found in management, they lack purpose and usability, except as readings on the topic of psychology and sociology of labor and this is valid also from the perspective of communication.

This paper is intended to fill these gaps in the science of Management and Communication.

Key words: working group, team, management, advantages

JEL classification: M54

1. Forming Working Groups – An Objective Response to the Management Requirements and to the People’s Need for Affiliation

“We need to treat goals as hypotheses subject to change, intuitions as reality, hypocrisy as a temporal lack of realism, memory, as an enemy of the innovations and experience not as frozen history, but as a theory of what happened and of what we can change, if from this we might be able to learn something.”

March, Cohen, Olsen

Starting from the observation that **all teams are working groups** but **not all working groups are teams** and that **teams are most commonly found within the official organization**, we will approach the working groups in the following, based on the **issues related to teams**.

Building teams may be **efficient for organizations** only if they meet their management requirements and the people’s need for affiliation. From these points of view, there is certainty that

management needs teams and the people need affiliation by joining a team. Then what would be the problems? There are many, but two of them are essential:

- Why do managers need teams?
- Why do people need to affiliate to teams?

These are problems that **have not been approached in management, neither in theory nor in practice**, but without a convincing answer, one cannot address the subject and the object to which we refer.

So **why do managers need teams?** If we define teams as organizational structures, we overcomplicate the answer, but we also **delineate** it. They need teams because the **structures available are not sufficient** and do not meet the current management requirements. Which would therefore be the requirements of managers **which are not satisfied by the available formal structures**, although these structures are fully defined by scientific research and by the existing normative framework? There may be several, but if we **summarize** them, we believe there are **still two**:

- flexibility and adaptation to market and change;
- the more efficient use of people, of the performance that people cannot achieve by individual work.

Therefore, managers and organizations **should not resort to forming teams except in the situations and under the circumstances mentioned**, and teams formed should have **this objective** and should be able to perform without any shortcoming. It is a **first basic criterion** that must be taken into account in the formation and functioning of work teams.

Coming back to the question, **why do people need to join a team**, the answers can also be many, but summarized, we believe that they are **the following three**:

- because, in specific situations, people cannot work individually;
- because when they can work individually, their performance is lower than in a team;
- because in a team they have more safety and security.

The practical consequences of these responses also seem clear, namely, that **people should not be forced to join teams under different circumstances**, because they will not achieve the expected performance, either for themselves or for the organizations. **It is therefore another criterion that should be taken into account when forming teams.**

Another set of questions derives from the emerging reality of the above mentioned facts, namely, that the teams are formed, usually only within the existing official structures, or in connection therewith (such as management teams created based on the concept of staff structure). From this fact arises another question of substance, namely, **what relationships will have to be developed between these structures and the teams formed within them, or related to them and vice versa?** The answer is difficult and complex. One thing however is certain, **these relationships should be beneficial to both parties, to stimulate each other**, and they should not generate, under any circumstances, disadvantages to each other. It is the **third important criterion** in the formation and functioning of teams.

Therefore, given the specialty literature in the two important areas (psychology and sociology of work) which is crucial in the vision of the new strategic role that people will have in the future, we tried to integrate, or at least to suggest ways of integration of these results into the management of organizations by creating and integrating the “Management of Working Groups” in the general management of organizations as a subsystem of particular importance in the contemporary world, especially in terms of the contribution to adapt the organizations to the market requirements, to change, to business globalization and internationalization of business, etc., which can only be addressed by stimulating the human creativity.

To achieve these goals, we have structured the book, which the present paper refers to, into the **following segments**:

- views on a new approach to human resources within the management of the organization;
- forming working groups – an objective response to the management requirements and to the people’s need for affiliation;
- the scientific need for a systemic approach to the management of working groups;
- the management of working groups - as a subsystem of the general management of the organization;
- general concepts concerning working groups and their role in management;
- the team - special form of working groups and its role in management;
- motivating staff – “the cornerstone” of performance in managing working groups;
- efficient management methods for stimulating human creativity;

- some concrete ways of promoting efficiency and effectiveness inside the team;
- communication – “turntable” of performance in the management of working groups;
- culture, organizational culture, management culture and their role in the management of working groups;
- coordination and relationship management - the essence of integrating working groups in the economic and social system of the organization;
- other concepts of labor psychology and sociology involved in the management of working groups;
- the plan of the team and making decisions for putting it into practice;
- the social truancy and occupational stress - the expression of deficient management;
- conflict management in working groups;
- basic concepts of professional deontology and ethics and social responsibility of the organizations involved in the management of working groups;
- mutations in the management of the 21st century organization with impact on the management of working groups - reflections for solving problems, presented in this paper.

At the end of Chapter 3, **we reviewed several major shortcomings** in integrating working groups into the economic and social system of the organization and the management of working groups in the organizational management, as problems of substance and structure of the book, to be better tracked and understood, for which purpose we reproduce the summary also in the following.

We **deliberately** left section 3.5, **at the end of the chapter**, as we consider it to be the **conceptual milestone of the entire book, to prevent firmly any connection** that someone could make between **our concept of integration of working groups** in the general system of the organization and of the management of working groups in the organization’s management system, **with the integration into the current anachronistic, confusion and erroneous system, that would be one of the worst**, meaning that **the general philosophy the book was not understood**.

From that chapter, **we discussed the integration of working groups in the management and the organization functions**, which are **not structures, but concepts, options, theories and activities** related to the organization and functioning of the organizations as a system.

We discussed, **for example, the integration of working groups**:

- **in the predictive function of management**, expecting that by our research we would identify a project showing how the working groups integrated into the predictive function of the organization management to present it in the book as a case study example, but we were not able to find any;
- **in the organization research - development function**, expecting that we would be able to identify at least a project in which the business was organized on working groups, for the same purpose as mentioned above, but we were not able to find any;
- **in the production function**, also expecting to find a project of organizing, launching and tracking production on working groups, for the same purpose, but we were again, not able to find any;
- **in the sales and marketing function**, expecting that we would find a project for restructuring the organization based on customer orientation and organizing the work on business processes and we were still not able to find any;
- **in the financial and accounting function**, expecting that we would find projects of resource allocation according to the product functionality and services to users, or to priorities (taking into account experts’ opinion that only 10 percent of events generate 90 percent of the results, in other words, that 90 percent of consumption is questionable), or resource allocation to management, profit and performance centers, a well-designed working group representing such a center, but we were also not able to find any;
- **in the human resources function**, expecting that we would identify new types of management, as for example, the specialists management, given that the future belongs to them and they cannot be led within the framework of the current authoritarian management, or a management of personnel motivation, taking into account the role of motivation in the contemporary world, or even more necessary, an integration project for the outcome of research from the field of labor psychology and sociology into the organizational management, but we were not able to find any, etc.

We would be happy to find someone who would feel offended by our statements and who would submit such projects to us, because we would be grateful and so would be, we hope, the entire academic body, taking into account their role and importance in the contemporary world.

Change - fundamental feature of this century - was generated, first, we would state, as we have already mentioned above, by the rigidity of the economic systems, in particular due to the following reasons:

- **monolithic organizational structures, inadaptable, cumbersome, bureaucratic and resistant to change and innovation**, which have become, in our opinion, the main bottleneck in the way of performance, creativity and competitiveness of organizations. There were created, conceptually, **dozens of types of organizations**, out of which, according to experts, **none meets the requirements any longer**, and therefore **a new one needs to be created, tailored to goals, people and resources**. There were also created on this skeleton, **dozens of types of organization charts** (hierarchical, functional, staff type, etc.), **all aimed, mainly, to manifesting the manager's authority and not his/her ability to communicate and to be understood and followed** (communication being, in a unanimous acceptance, the most important quality of a manager, **which, if he/her is lacking, becomes the greatest social danger**)
- **obsolete, anachronistic concepts** such as (and consequences are still manifested), the **“manufacturer dictatorship”**, manufacturers who were organized and **acted at their sole discretion** in relation to the concept, resources, people, relationships, etc., **not in accordance to the market**, as there have always **been free markets**, which were open, and who now **complain most about the lack of markets**. The customer orientation is **more clamant than operationalized**, although if it would be taken seriously, it **changes everything**, including or perhaps **especially the targeting of investments**;
- **speed was more important than the goal, speeding towards the wrong targets**, wasting the resources, **especially time**, creating the **“tyranny of urgency”** that grinds the peace and soul of people;
- **the balance between the interests of employers and the interests of the people was broken**, although experts **warned** that the two sides should behave as if they were on a **balance**, each on a plate, and that the more they **distort the balance** in favor of one, the greater is the **loss for both**;
- **human resources are the main strategic resource of the organization, and the most important strategic investment of the organization is done in human resources**, but is also the most risky, **if the role of people's career is not reconsidered**;
- **working groups are the most flexible and efficient organizational structure** achieved conceptually **so far**, which **can absorb up to annihilation** the problems mentioned above, **if the groups are correctly perceived, organized and used**, as they benefit from **the most important result of scientific research**, related to meeting the basic psychological and sociological requirements, in their **association, formation and operation**, representing a potential which is **too little known and even less integrated in the management**;
- **the future world is a world of knowledge**, the knowledge capital being **the most efficient form of capital**, knowledge which depends **exclusively** on the use of **intellectual capital**, which, as the **main share** is found in working groups (**this phrase became popular: we work in team**, even if there are thousands of people **without properly understanding** what is a team, the typology of teams, the advantages and disadvantages of each type, the organization, operation, and **especially the monitoring, evaluation and motivation**);
- **change is disruptive and unpredictable and so are people. He who does not recognize this, who does not get involved to implement it**, he who does not take action, **freezes and dies. It is generated by people who will not accept it if they do not understand it and, especially, if after implementation, they do not find a place convenient within this new framework. Hence** the resistance to change. Experts say, **entirely founded**, that if these requirements are met - **understanding and place** - people **will demand the change themselves** and that **the more profound the change is**, the greater the demand for it and the faster it is applied.

2. The Working Group Concept from the Perspective of Systemic Approach of Their Management

The working group concept, as we believe it was noted, **is one of the most permissive**. It can mean anything from a group of 2-3 people who go to sweep the yard, reaching, by extension, to the working group made up by a company, a town hall, a school, etc.

A first required delineation, we believe, has to be drawn between the working groups in an organization and an ad hoc working group formed randomly, in an unorganized framework.

If delimit the working group to that formed in an organization, then these groups **can be approached only systemically**, in relation to the organization in which they function.

The second delineation required is between working groups from the socio- economic systems and those in public institutions, which, naturally, have another type of tasks, objectives, which are reflected in the type of management that applies to them.

The third delineation is between the working groups functioning in a single organization structure and those functioning across several structures, the latter complicating considerably the management system that applies to them.

The fourth delineation is between formal and informal working groups, the first functioning in a strictly regulated normative framework and the other functioning outside it, an aspect which also requires different management systems.

The delineation requirements are, as it unequivocally results, multiple, and **they must be clarified** before bringing into discussion the management of working groups.

We stop at a fundamental delineation imposed by the current situation i.e. the proposed working group management delineation exclusively from the psychological and sociological perspectives of forming them, as it happens now, or:

- from a managerial perspective;
- from a psychological perspective;
- from a sociological perspective;

all correlated as systemic approach of the organization.

If this approach is accepted - in our opinion **the only correct and scientific approach** - any group manifestation, from its establishment to organization, operation, cooperation, assessment, self-assessment, etc. can only be represented through the relationship with the organization, its mission, strategic goals, its general management, through down-top feedback and reactions of correction, stimulation, generalization of performance, change for the better, top-down.

The stages, phases, reactions, etc., mentioned are, **in essence, the expression of the systemic approach** of the organization and its management. It is the platform on which we built the management of working groups and the book as a whole.

3. The Effectiveness and Advantages of Self-Managed Teams

Research has shown that **self-managed teams** are far more efficient than traditional working groups. In these teams, improvements in quality are much higher than in traditional working groups and the **motivation and engagement of the people is connecting their energies**.

The implementation process of self-management is not easy. It may be facilitated if the mindset of people is understanding, open to new, to diversity, and if their **mental model is new, modern and flexible**.

Not all self-managed teams are successful. **Some fail**. The main factors of success of the self-managed teams **are listed below**:

- they have a clear mission and high performance standards. Team members know what the team must achieve;
- they spend considerable time with the purchase of resources they need to achieve their tasks efficiently: equipment, facilities, training etc.
- they consume a considerable time for planning and organizing for the optimal use of available resources and assessing technical skills of the team members before setting tasks;
- they achieve high levels of communication, leading to minimizing of interpersonal conflicts within the team

The potential benefits of **self-managed teams are**:

- stronger engagement in work of the team members;
- superior quality and efficiency;
- increased employee satisfaction;

- reduced absenteeism and turnover;
- faster product development;
- the superior knowledge of the team members helps them solve problems and suggest improvements.

The core variables to consider when forming a self-managed team are:

- the team members identify themselves to a great extent with the team;
- the degree of trust and mutual cooperation is high;
- high cohesion between the team members.

To achieve these characteristics there is a need to ensure a good start.

Researchers have identified **four variables** that are necessary to achieve a good start for these teams: **rules, task structure, size and composition** of the team as well as the initiator.

The set of rules. A team that is effectively self-managed must be guided by a set of rules that determine the behavior of all team members. For a new team these rules can be obtained in two ways: rules of the organization, which may be assumed by the team and own rules created by the team.

These rules must not be confusing for the team members. At the same time they must ensure a proper relationship system for an extended period of time.

The structure of tasks. Refers to how clear and repetitive the task is. The structure is a continuum between structured, repetitive and routine tasks and unstructured, non-repetitive and non-routine tasks.

In the case of forming new teams is necessary to clarify the structure of tasks, thus avoiding misunderstandings that may arise later. Team members must know the exact tasks to be performed. It also poses the question of whether the team has enough autonomy to carry out the tasks and to have access to information.

Team size and composition. This refers to the number of team members and their diversity. It is said that the optimal size is given by the minimum number of members required to perform the task. Also, team members must possess sufficient maturity and interpersonal skills to cooperate among themselves and to be able to resolve conflicts that may arise.

The person in charge (the cause supporter). Successful self-managed teams are those that were initiated by a person within the organization and who supports the team's cause. Such a person, who is in charge for a self-managed team, helps the team obtain the necessary resources. This person is also concerned to obtain consent and support from the top management as well as from the other subunits of the organization. The role of the person in charge becomes particularly important when the self-managed team concept is applied extensively to the business and when there is hostility and distrust from other managers who are afraid of these groups, which will produce shifts of power and authority in the organization. This person in charge is the one struggling to gain engagement at all levels, presenting the advantages. To create successful teams, the person in charge must consider **several strategic actions**:

- clear communication of the responsibilities expected from the team members;
- ensuring that the needs and objectives of the self-managed team members are consistent with those of the organization;
- coordinating the efforts of various teams in the organization to support each other;
- facilitating the continuous learning of the team members;
- building and maintaining trust between the team members as well as the rest of the organization.

The success and longevity of self-managed teams **depend on** establishing a sound foundation from the very beginning. Without an adequate infrastructure, organizations might, intentionally or unintentionally, undermine the work of those teams. Sometimes problems arise from the top of the organization. Management can cause a number of problems, such as: overloading a team with too many tasks; superimposing a new program over the existing procedures and system without proper evaluation; uncertainty regarding the team direction; withdrawing a number of responsibilities; requiring a type of behavior that does not match the aspirations of the team.

To avoid such problems, one should consider the factors that can be used to ensure achieving an advantage by implementing such a team.

The book, **with its manner of approach, with its contents**, mentioned at the beginning of this paper, we appreciate that, besides the academic environment, is useful also to managers, HR specialists, specialists in psychology and sociology of work, in order to make better use of the particularly important scientific research, and, undoubtedly is useful to working groups.

We suggest the formation of interdisciplinary teams (management, psychology, and sociology), offering our support to write the second edition of the book referred to by this paper, which can be more complete and perhaps can offer more appropriate practical solutions.

We would like to **thank all those who will submit suggestions or comments**, and we appreciate these also on behalf of those who feel a real and pressing need for this segment of management, both in present and in the future.

Keywords

- System - structure designed according to the Systems Theory;
- Systemic approach - intervention in the system only after knowing the transformations that the intended intervention might generate;
- System correction - intervention in the system that modifies a part of it, with implications in the behavior and in the results of the system evolution;
- System integration - compatibility with the components, functions and evolution of systems;
- Function of the management - a management attribute;
- Function of the organization - a homogeneous group of activities that are conceived, organized and run by the same rules;
- Management audit - supervision of the evolution of a socio-economic system;
- Context management - a management system built on information collected by means of the management audit;
- Performance - an outstanding achievement;
- Working group - group of people who got associated based on criteria which they know well, to achieve higher performance than they could have achieved individually;
- Team - working group formed usually in a formal structure to complete a task, which they accepted as common;
- Social truancy - absconding from group work, facilitated by the fact that those involved were not assigned well-established individual tasks;
- Occupational stress - abnormal condition, aggravating for the health of a member of the working group or for more, due to causes where the responsibility lies with the organization;
- Professional ethics - assuming and compliance with the rules of professional conduct as stated by the team, working group or organization, or at another official level;
- Business ethics - compliance with rules of conduct adopted for the business relationships;
- Social responsibility – voluntary assuming of social obligations other than those established by law.

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ALIEN WORKERS AND QUALITY OF WORK LIFE: THE CASE OF SONGKHLA PROVINCE, THAILAND

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Abstract: *This research aims to study and compare the quality of work life for alien workers, classified by personal and work factors. The results show that the overall quality of work life for alien workers is of a high level. A comparison of aliens' quality of work life, classified by personal and work factors, found that alien workers with differences in nationality, size of household, number of employed household members, and work permits experienced differences in their quality of work life. This will benefit related organizations in improving the quality of work life for alien workers.*

Keywords: Quality of work life, Alien worker, Worker

JEL classification: J61

1. Introduction

Since 1961, a significant shift has occurred in Thailand's economy, using the national economic and social development plan as the tool for the country's development. The industrial economy has now overtaken the agricultural economy. As a result, a big change has occurred in the structure of the production and labor markets. Cheap, skilled labor is an important production factor for every entrepreneur to gain a competitive advantage from his or her current production factors. Because of the continuing expansion of investment and economic growth in Thailand, these will push up the demand and compensation for all levels of the labor force. Many native Thais are no longer interested in jobs that are risky, arduous, or dirty, so most businesses have to hire non-Thai labor instead (Wongmulitthikorn, 2009). Recently, the number of non-Thai laborers has clearly increased—especially from Myanmar, Laos, and Cambodia—with these laborers usually working in the fishing industry, construction, household service, agriculture, restaurant service, and Thai massage (Thitilak, 2010).

The foreign-labor statistics for Thailand in March 2013 showed a total of 1,126,461 foreign workers, including 1,102,782 legal workers and 23,679 illegal workers (Alien Worker Management Office, 2013). However, migrant workers in Thailand have problems in terms of management and skill segmentation in order to achieve the optimal usage. Moreover, the labor laws for foreign workers in Thailand are not concise or strict enough. The Thai government should organize alien workers by limiting the number of laborers each year, classifying laborers according to their skills, and giving them training. In terms of employers, they should follow the law seriously and act fairly to their employees. In the case of the government officials involved, punishment for breaking labor laws should be increased. The drug problem is of concern, because this can lead to other problems. Solving all the problems through an integrated collaboration between the public sector, enterprises, and employed workers is also significant (News Bureau of Thailand, 2012).

Besides the social problems that affect Thailand because of foreign workers, most workers experience personal risk when coming to work in Thailand. It starts at the first stage of their journey to Thailand, where some of them must pay a commission to agents and government officials. Some of them also die during their time in Thailand. Exploitation by employers lowers their quality of life, collateral, and wages. Most alien workers are paid 20–50% less than Thai laborers. Some of them face problems with wages not being paid on time or having deductions from their wages for commission, housing, or food. Working for longer periods, being forced to take drugs, and working in unsafe environments seriously affect their welfare and safety (Hunsong, 2005).

According to the characteristic of the work, the problems of migrant workers can be classified as follows:

1) Agricultural-sector workers: Most agricultural workers receive low wages and have no job security because of seasonal demand. Moreover, agricultural workers are not protected by Thailand's labor laws. The most common problem is for employers to refuse to pay wages, claiming other expenses instead. Sometimes, when the work has been completed, such employers request that the police arrest these workers.

2) Fishing-industry workers: Foreign workers often have to go to sea for a long time, typically between four months and a year. They work hard, live in difficult conditions, and have no time to rest. Besides lacking food and medicine for day-to-day survival, they are at risk of being physically abused or killed by supervisors or captains because of unsatisfactory work or fighting. They are called "marine prisoners." Being in the territory of another country can also incur the risk of being arrested by the authorities of that country.

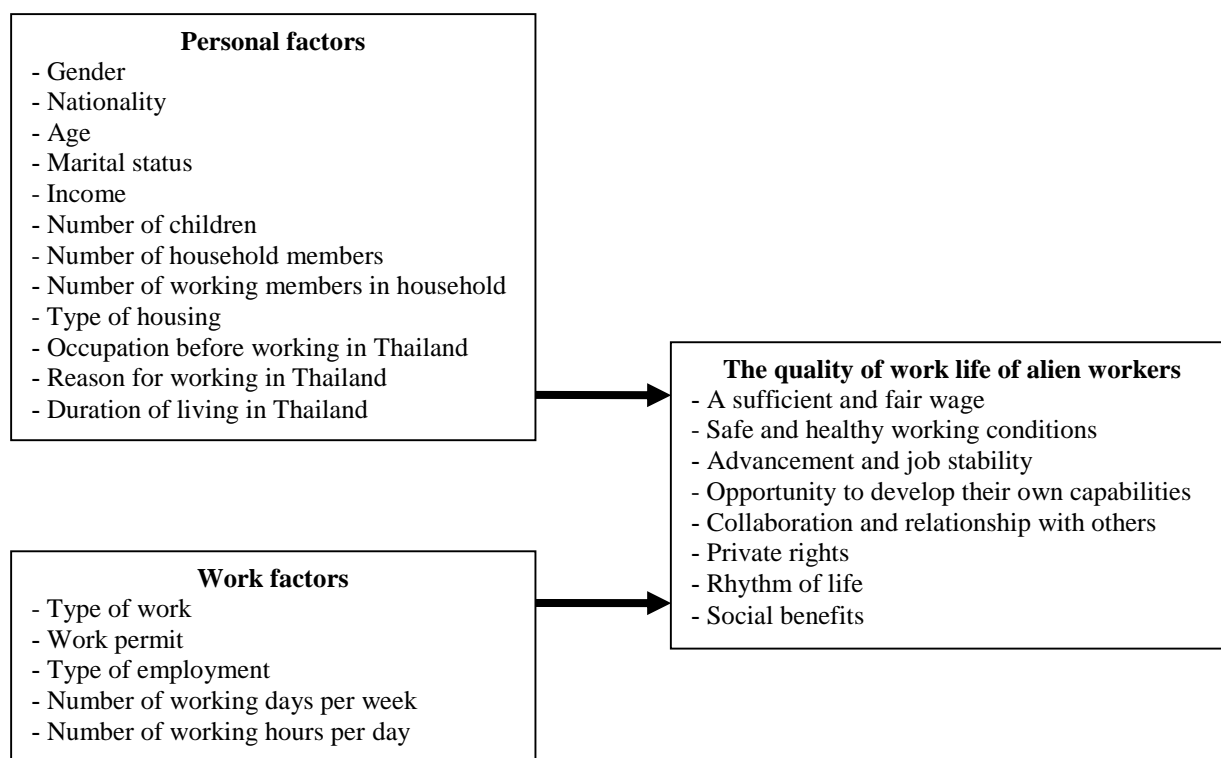
3) Maid workers: These may work all day and all night, and sometimes they need to work for both the employer's business and home. They are forbidden from contacting people on the outside, because the employers are afraid that the worker may contact others to arrange theft. The alien workers may be blamed and severely physically abused.

4) Industry-sector workers: These are not allowed to go outside and must work all day until midnight. The employers serve them with low-quality food that would otherwise be wasted. These workers were found to eat just two small meals a day.

5) Construction-sector workers: These are often cheated of their wages. Until now, wage problems are the main issue among migrant workers, and this is found in almost every sector. Employers often defer wages or claim that other expenses need to be deducted. Sometimes, in the case of large payrolls, an employer may get the police to arrest the alien workers in order to avoid paying. During such hard times, most of the workers who do not receive their wages tend to borrow the money or necessary items needed for daily living. Employers prevent the laborers from escaping or withholding labor by only paying 15 days for 25 days of work (Kanjanaudit, 2007).

The foreign-labor statistics for Thailand in March 2013 showed a total of 4,884 foreign workers, including 4,879 legal workers and 5 illegal workers (Alien Worker Management Office, 2013). This research aims to study and compare the quality of work life for alien workers as classified by personal and work factors. The results will benefit related organizations in promoting the quality of work life for alien workers. The research framework is shown in Figure 1.

Figure 1: Research framework



2. Research Methodology

2.1 Population and sample

The population chosen for this study was the alien workforce of the organizations located in Songkhla province. The total number of the population was 4,884 (Alien Worker Management Office, 2013). The sample size can be based on the table of Askin & Colton (1963), in which 309 samples are appropriate to represent 5,000 populations at a 95% level of confidence and 5% margin of error. The respondents were selected by accidental sampling.

2.2 Research instruments

A questionnaire was the research instrument for this study.

2.3 Instrument verification

Validity and reliability were tested, as detailed below, to ensure the quality of the questionnaire used in this research.

1. Validity: The content validity was tested to ensure that the content of the questionnaire measured all of the research definitions and objectives. The questionnaire was evaluated by human-resource management experts and then tested for validity.

2. Reliability: The questionnaire was tested for alien workers who worked outside Songkhla province. Cronbach's Alpha Coefficient was calculated to test internal consistency. The recommended value for Cronbach's Alpha Coefficient is 0.70 or higher, meaning that the questionnaire would be suitable as the instrument for the research (Cronbach, 1951; Nunnally, 1978). The reliability result of the pilot study showed the Cronbach's Alpha to be between 0.707-0.881, meaning that it is suitable for the study.

2.4 Data analysis

The data was analyzed by a statistical software package as follows:

1. Descriptive statistics were used to analyze the data by percentage, average, and standard deviation
2. Inferential statistics were used by t-test and F-test.

3. Results and Discussion

3.1 Personal factors

The results indicated that the respondents were relatively equally spread over both genders. Most of them were Myanmar (58.6%), with a typical age between 20 and 30 years old (66.0%). The marital statuses of single and married were similar in number, 47.2% and 41.1% respectively. They earned incomes of 5,001–7,500 baht per month (44.0%) and 7,501–10,000 baht per month (36.9%). Three-quarters of the respondents worked as the supporting group with at least a 10-year working period. Most respondents had no children (47.6%), and the typical household size was 3–4 (46.9%), while the number of working household members was 1–2 (57.3%). Some of them rented housing (32.4%), while others stayed at worker camps (30.7%). Before working in Thailand, many of the alien workers were previously employed (38.8%), and the main reasons for them coming to Thailand were looking for work and earning more income, accounting for 36.6% and 31.4% respectively. Most had been in Thailand for between six months and two years (60.1%).

3.2 Work factors

The results from the study of work factors of the alien workers who work in the Songkhla organization showed that most respondents worked in the construction sector, and this is consistent with the results of the studies of Khunsri (1996) and Phewnen (2004). The reason may be due to alien workers having more patience and working harder than native Thai workers (Lorwithee, 1998; Phumephakdee, 2003; Joyjamrat, 2004; ABAC Poll Research Center, 2006). Moreover, Thai workers have no interest in working in the construction sector, and employers would need to pay more for Thai labor. Most of them had work permits and were employed on a daily or monthly basis, consistent with the study of Phongaram (2003). The majority of the respondents worked 5–6 days per week and 8 hours per day. The results from the study of Phewnen (2004) also indicated that alien workers worked with greater patience and for longer hours of continuous work. As a result, the number of alien workers has consistently increased.

3.3 Quality of work life

The results from the study indicated that most respondents had high levels in terms of sufficient and fair wage, safe and healthy working conditions, opportunity to develop their capabilities, collaboration and relationship with others, private rights, rhythm of life, and social benefits. This is consistent with the results from the study of Suphasri (2005) but is contradictory to the study of Khunsri (1996), who found that foreign workers receive 50% lower wages than Thai workers. The studies of Prutthikun (1998) and Phongaram (2003) also indicated that entrepreneurs pay less to foreign workers than Thai workers, so alien workers always complain about this issue (Chaikhunthaweechote, Urairat, Yubamrung & Thawornprasert, 2012). Foreign workers are often exploited by Thai employers because their employers always believe these workers have no alternatives and they are being paid more than they would earn in their native countries. However, the results from the study of Phumephakdee (2003) showed that foreign workers are satisfied with what is supplied by employers, such as providing them with skill development (Phongaram, 2003), and this is consistent with the results from the study of Chaikhunthaweechote, Urairat, Yubamrung & Thawornprasert (2012). Alien laborers have the freedom to contact other people, and this makes them happy (Suphasri, 2005). The results from the study of Phewnen (2004) indicated that there were welfare differences between foreign and Thai workers, including housing, food and health. The results of the study indicated that only advancement and job stability was at a moderate level, while the overall quality of work life for workers was at a high level and consistent with the results of the study by Suphasri (2005).

3.4 A comparison of the quality of work life for alien workers as classified by personal factors

The results of a comparison of the quality of work life for alien workers as classified by personal factors showed no difference in quality of work life in the areas of gender, age, marital status, number of children, type of housing, occupation before working in Thailand, and reason for working in Thailand. However, the difference of the quality of work life in terms of income and duration of stay in Thailand, due to at least one group, has a variance less than or equal to 1. The results also indicate a difference in quality of work life in the aspects of nationality, number of household members, and the number of working members in the household. In the aspect of nationality, Myanmar laborers have higher quality work lives than Laos laborers, and this is consistent with the results of the study by Suphasri (2005). In terms of the number of household members, a laborer with more than six household members has a lower quality of work life than a laborer with six or less household members. An increase in the number of household members may cause an increase in cost. In the area of the number of working household members, laborers with 5–6 working members in their households have a higher quality of work life than laborers with either less than five working members or more than six working members. Even if a high number of workers in a household increases the total income, a lack of members taking care of dependent family members, such as children and elderly relatives, may affect the quality of work life.

3.5 A comparison of the quality of work life of alien workers as classified by work factors

The results of a comparison of the quality of work life of alien workers as classified by work factors only showed a difference in the quality of work life in the aspect of work permits. Alien laborers with work permits enjoy higher levels of quality of work life than those without a work permit. The results from the study of Joyjamrat (2004) indicated that there were several barriers to applying for a work permit, such as a complicated procedure, a need to contact several agencies, and frequent changes in the necessary steps. This was consistent with the results from the study of Phongaram (2003). Without work permits, alien workers can be limited in their employment rights. In order to enhance the quality of work life for alien workers, relevant agencies should collaborate in finding measures to enable alien workers to receive legal work permits.

4. Recommendations

- Although the results from the study indicated high levels of overall quality of work life for alien workers in Songkhla province, the quality of work life for the aspect of progress and job stability is still only at a moderate level. Both relevant agencies and entrepreneurs should collaborate in enhancing the quality of work life in this aspect, such as by implementing measures or regulations to eliminate the difference between Thai and alien workers. Legislation to safeguard alien workers could enhance their job stability and guarantee them a better life.
- The results from the comparison of the quality of work life for alien workers showed that different nationalities have different qualities of work life. This issue may stem from the

attitudes of employers and entrepreneurs toward certain nationalities of migrant workers and the difference in capabilities between different nationalities. Employers and entrepreneurs should adjust their attitudes toward workers of all nationalities and enhance the capabilities of all alien workers, regardless of nationality. Treating all nationalities in the same manner will enhance the quality of work life for all alien workers.

- The results from a comparison of the quality of work life of alien workers indicated a difference in quality of work life based on the size of workers' households and the number of working household members. Relevant agencies should provide education about family planning and the consequences of not following it. An awareness of family planning will enhance the quality of work life for alien workers.
- The results of a comparison of the quality of work life of alien workers showed a difference in quality of work life in the area of work permits. Alien workers with work permits have a higher quality of work life than those without a work permit. In order to enhance the quality of work life for alien workers, relevant agencies should implement measures to enable alien workers to receive legal work permits in order to prevent them from being exploited by employers. When workers lack permits, employers assume that these workers have no alternative and should be grateful for being paid more than in their native countries.

5. Acknowledgement

This research was financially supported by Thaksin University in budget year 2013.

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TOTAL QUALITY MANAGEMENT IN ROMANIA. HOW TO IMPLEMENT TQM IN PUBLIC SECTOR? THE APPLICABLE QUALITY MODELS IN THE PRIVATE/PUBLIC SECTOR

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Abstract: *The aim of this paper is to analyze how the public administration system are being sustained in Romania, by contributing to improved performance levels in order to identify the elements of total quality management applied by public managers. Full understanding of the operation of quality management systems in the public sector requires prior knowledge of the interactions between both central and local public management institutions. Furthermore, it is necessary to know the latest developments of the Romanian public administration system. In addition, we plan to introduce three quality models applicable to the public sector.*

Quality management plays a key role in improving organizational performance over time. There is a continuing emphasis on cost reduction and improved customer service within the Romania public sector, as successive governments seek to control public expenditure and improve value for money.

Keywords: Total Quality Management, public sector, quality models.

JEL classification: L3

1. Introduction

Similar to the latest practice management, private sector organizations have embraced the principles of quality service but faster than public sector organizations. This may be due to the inherent attributes of specific differentiated activity. Thus, the main objective of most public sector organizations is to provide social benefits with a limited budget and reduce the costs involved to meet these goals [2].

2. Total Quality Management, a literature review

In current economy, due to globalization and liberalization, competition is becoming more intense. With their increasing competitiveness, business survival pressure and the dynamics of businesses, in both the private and public sector, have been recognized as an important issue and have generated substantial interest among managers and researchers, opting for a change of customer oriented and total quality management. Nowadays, most companies are trying not only to meet customers' needs but to also exceed them.

In most developed countries, quality concepts such as total quality management have been adopted by public sector organizations since the early 1990s. Over the past two decades, TQM has received considerable attention from scholars and practitioners alike. Traditionally, quality has been defined as all the properties and characteristics complying with standards, specifications or requirements, however, lately this approach has also included exceeding customer expectations and providing customer satisfaction [1].

Literatures holds many definitions that are accepted and used based on the opinions of five quality gurus: Juran, Crosby, Deming, Feigenbaum and Ishikawa.

Total quality management has been present in Japanese industry since 1950 and has been gaining followers in the West since the 1980s.

In its essence, TQM is based on three fundamental principles:

- focus on customers and stakeholders;
- process focused on continuous improvement and learning;
- participation and teamwork of all employees in the organization [3].

Total Quality Management (TQM). TQM is a people-focused management system that focuses on increasing customer satisfaction while continually reducing costs. Although it uses scientific methods for assessing quality and associated costs and constraints and implementing improvement, it takes a total systems approach in which all functions, processes, and departments across the organization, and all employees at all levels, are integral to ensuring success in the manufacture of products or delivery of services. TQM stresses learning and adaptation to continual

The first principle is customer orientation that aims to achieve customer satisfaction, where the organization is liable for providing goods and services that satisfy the customer. This principle is the key factor in order for the long term survival of an organization.

The second principle is continuous improvement and requires the improvement of every process of the labor and organizational system. As customer expectations and needs grow and change continuously, organizations must improve work processes and practices such as relevant analyses, reengineering and the PDCA cycle. There are many tools and techniques that can be used for such practices: the Fishbone diagram, the Pareto analysis, etc.

3. Total quality management in public sector

Following the transformations brought by information society and the emancipation of citizens of developed countries, public administration is heading towards what the Politt paradigm calls NPM (New public management).[7] The main novelty brought by this trend concern:

- decentralized structures, organized semi-autonomously, to the detriment of multi-purpose structures;
- employment relations based on management contracts;
- change of attitude of officials and the conversion thereof to Key Account Managers;
- activities directing public managers to quantify activities and introducing individual and departmental performance indicators.

A different point of view with regard to the increase of the quality services in the public sector is given by Vigoda and Golembiewski (2001), commenting on the decision-making process, particularly for collective management. From their point of view, NPM cannot be isolated from collective management, and collective management cannot be strictly limited to civil managers [9].

NWS (neo-Forensic Institute Member), the concept proposed by Bouckaert and Politt (2004), affects both public management specifications at a central level, as well as at a local level.

According to them, new components make reference to [5]:

- advisory bodies that show the views of individuals, which is a case encountered in Northern Europe, and is applicable in Romania. Policy-makers are given management positions, and are thus granted utmost importance, while directly decreasing the care paid to the requirements of citizens. This statement is supported by a recent study (Hosu, Deac, Mosoreanu 2012), which argues that the "people complain mostly about local institutions concealing, distorting or blocking access to information, lack of transparency in the way of decision making" [5].
- facilitating the way public institutions provide citizens with fast and effective solutions instead of demanding and complicated procedures.

4. Total quality management in the Romanian public sector

This section proposes the highlighting of the TQM specifications in the Romanian public administration in a comprehensive structure. The research methodology consists in consulting the specific legislation, the relevant documents drawn up by Romanian public institutions and the international organizations concerned with the development of Romania.

From an **operational** perspective, the state body in Romania is organized in **decision-making and executive levels**, similar to economic organizations. Thus, the Government, through the Cabinet of Ministers, is responsible for issuing decisions for most sectors. Obviously, the decision-making process in public administration is subject to other debates, which is why we will not insist on the matter any longer.

Another important perspective is the **administrative organization** of the state. From this point of view, there are two established levels: the central and the local administration. **Central administration institutions** are in charge of the global management of actions and social and economic relations between citizens and public or private organizations.

On the other hand, **the local public administration** is responsible for ensuring the stability of the micro social relations in the urban and rural communities.

It is well known that, at the level of management of the Romanian public, the legislation has been amended numerous times, where all such instances influenced the quality of public services. The effect can be considered from two points of view:

- **quality management is streamlined** by the law amended to prevent errors, institutional blockage, to cover categories of unavailable services or to redefine the status of decision makers and public institutions under the public administration in accordance with the interests of citizens and private companies;

- **quality management losing quality** as a result of legislative changes if new provisions: create confusion, avoid drawing clear responsibilities for certain decision makers, create a blockage in the financial circuit, come in conflict with the interests of citizens and private companies.

4.1. TQM at the central public administration in Romania

For the first decade of democracy, the World Bank [10] has classified Romania as an organization member with high focus on its political factor. According to recent studies developed by financial institutions (EBRD 2013 [12] and the World Bank 2002), Romania is no longer included in statistics about economies located at the stage of *early transition* for the period after 2002. *The strategy for Romania* drawn up by EBRD [12] (EBRD 2012) proposes the term of *advanced transition country*, a fact that involves overcoming certain institutions barriers in the development of central administration.

Political education and youth policies

The national policy on education and youth has undergone significant transformations from an administrative point of view, by means of the decentralization process, and more recently, through the law on education (Law 1/2011).

The first specific TQM elements which were integrated after 2002 include the PHARE TVET, implemented between 2003 and 2006. Having a first contact with a form of external financing, the involved institutions streamlined quality management to avoid financial penalties. This should be followed by a discussion on Law 87/2006 on the establishment of the National Framework for Quality Assurance in Vocational Education and Technical (NFQA in VET). The specific novelty of TQM was brought by this program [13] as follows:

- the creation of inter-assistance networks between the VET units;
- involvement of VET in the learning/peer review activities, even at the European level; monitoring certification sessions for the occupations of vocational training.

Romania's accession to the European Community has driven a number of programs that were already available or that were proposed by the Romanian authorities. A tool that facilitated the implementation of TQM in educational institutions is SOP (Sectoral Operational Programme - Human Resources Development). Without going too deep into the subject, it is worth taking a look at Axis 1.1 "*Education and training in support for growth and development of knowledge based society*" which promotes the quality of educational institution management at all levels.

Other programs related to Romania's accession to the EU and that promote specific items of TQM are Erasmus Mundus and the Bologna process. The implications of such programs in relation to TQM required from education administration are as follows:

- streamlining information flows and centralizing related information from higher education beneficiaries;
- training alternative to academic decision-makers;
- ongoing assessment of the quality of education;
- ranking universities and resource allocation based on this consideration;
- adapting the educational curriculum of economic and social development;
- checking the results of alternative quality academic research.

The Youth in Action program implemented and financed by the European Commission is noted in the field of the youth policies. In terms of quality management, the central public administration established the NACPFEVD [14] (National Agency for Community Programmes in the Field of Education and Vocational Training). NACPFEVD made great use of the TQM specifications, and some such practices are indicated below:

- always check the status of projects together with the representatives of EU institutions;
- require constant feedback from the program beneficiaries;
- compulsory external evaluation of programs, strategies and results;
- creation of a department (QAMAE) committed to providing quality training programs funded by the European Commission.

Human resources in the administrative system

At the level of the Romanian public administration, human resources are managed by means of the Statute of civil servants (Law No 188/1999), and the associated institution in charge for management is the NACS (The National Agency of Civil Servants). In the last decade, NACS has had an activity supported by 17 projects with foreign financing. The most important aspects associated with TQM may be considered to be:

- streamlining the processes of recruitment, the selection and evaluation of civil servants;
- civil responsibility in relation to the recipients of the provided services;
- training human resources in the context of administrative decentralization;
- enhancing the dialogue between civil servants;
- developing skills in areas such as strategic management, project management;
- increasing the capacity of public servants to use modern computer technology, the use of e-learning platforms for providing training sessions;
- reforming the civil service through the introduction of performance indicators;
- training of officials on the proper implementation of legislative changes;

Health and social services

The period envisaged in this article has been marked by numerous proposals on the reorganization of the health system. Both public-private partnerships and privatization in certain areas of the healthcare system have been proposed by the central public administration or by businesses. In terms of TQM, the last decade has focused on the healthcare system where a number of practices have required the following changes [18]:

- implementing the principles of equity, quality, liability and patient orientation;
- integrating the values promoted by WHO (World Health Organization);
- consulting representative patients (feedback) for amendments;
- correlation of patient services: financing and organization of healthcare, drug policy, primary care, hospital services, human resources;
- efficient services based on scientific knowledge;
- restricting services to the specific patients who need to benefit from them, thus avoiding both over- and under-utilization of resources;
- centralizing information associated with patients within the framework of a single system;
- introducing a single healthcare card, with up to date information;
- reorganizing institutions that manage financial resources for the purchase of drugs and afferent materials.

Social services are extremely dependent on the typology of beneficiaries. The representative categories of beneficiaries of social service institutions are pensioners, vulnerable people on the labor market, minors, disabled, homeless individuals, etc.

In terms of TQM, Order no. 383/2005 of the Minister of Labor [18] is relevant, introducing the following principles concerning quality standards in this field:

- organization and management: organizing efficient and effective internal processes;
- rights: equality of beneficiaries, self-determination, personal dignity;
- ethics: the dignity of beneficiaries and risk insurance;
- comprehensive approach: collaborative diversification and continuity of services;
- focus on the person: risk forecasting and risk monitoring;
- participation: involvement of the beneficiaries in the decision-making process;
- partnership: involving civil society and the business environment;
- focus on results: monitoring and assessing the impact of social services;
- continuous improvement: proactive approach, staff training, effective communication with beneficiaries and the governmental decision makers.

Finance and economy

Taxation, legislation for small and medium-sized enterprises, public procurement, the state budget, the energy sector, the business environment, they all have more than a significant impact in terms of macroeconomic development in Romania. There have been numerous analyses and studies of the evolution and impact of legislation in such areas, which is why we are briefly presenting some of the more specific issues TQM has identified in such fields:

- implementation of the programs for technical and financial support for SMEs by the Ministry of Economy;
- instruments to stimulate competition on the energy market [19]: the Next Day market and the Intra-daily market, the Green certificates market, the greenhouse gas emissions certificates market, the natural gas central market, the central market for bilateral contracts in electricity;
- efficient communication with the Tax Administration and citizen orientation via online tools;
- the 2014-2020 National Export Strategy provides for an increase in the quality of exports, to the detriment of quantitative growth;
- introducing the classification of rural tourism accommodation facilities;
- adoption of an internal control / management system by the Ministry of Economy;
- measures to promote areas of high-technology industries.

The list of major interest areas could continue, but we would like to only present the revealing aspects we have discussed about up to this point, in order to build a first impression with regard to the elements of TQM in the central public administration.

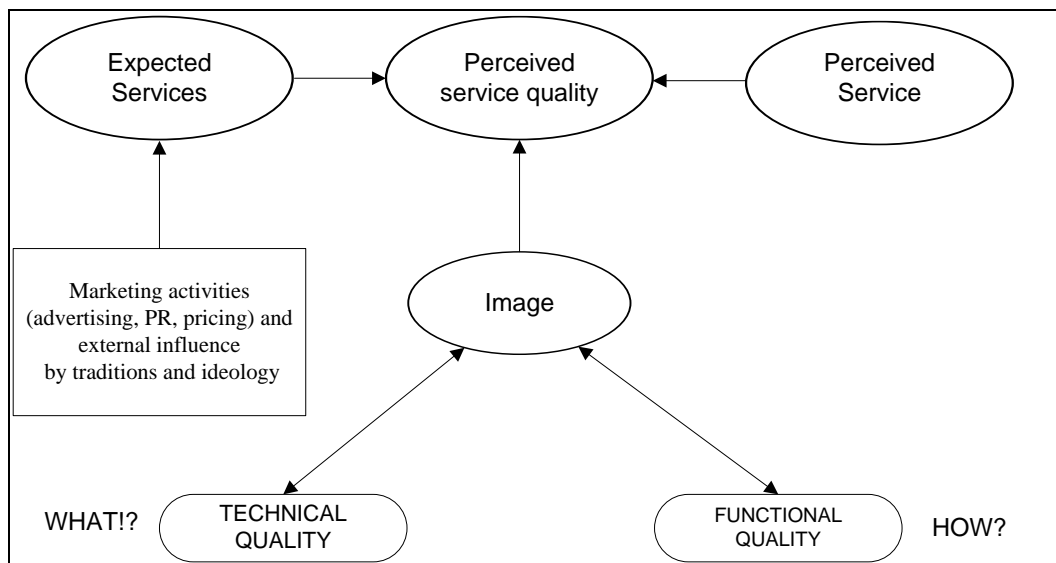
5. THE APPLICABLE QUALITY MODELS IN THE PRIVATE/ PUBLIC SECTOR

In the last 30 years have been proposed and implemented a variety of quality models, some with great success. Despite the success and standardization efforts, quality models are still not applied practically. We propose three models applicable to both private and public.

a) Technical and functional quality model (Grönroos)

An organization must thoroughly understand consumer perception of the quality and the way it affects. The author identified three components of service quality, namely: technical quality, functional quality and image (Figure 1):

Figure 1: Technical and functional quality model



Source: adapted from Grönroos, C (1984)

Technical quality is the quality of what the consumer actually receives as a result of interaction with the company and the perception of service quality. Functional quality is the perception on the technical outcome.

Image is very important for organizations and this can be expected to built up mainly by technical and functional quality of service including the other factors such as tradition, ideology, networking, public relations and pricing.

b) PCP attribute model (Philip și Hazlett, 1997)

The authors propose a model that takes the form of a hierarchical structure based on three main classes of attributes: pivotal, core and peripheral.

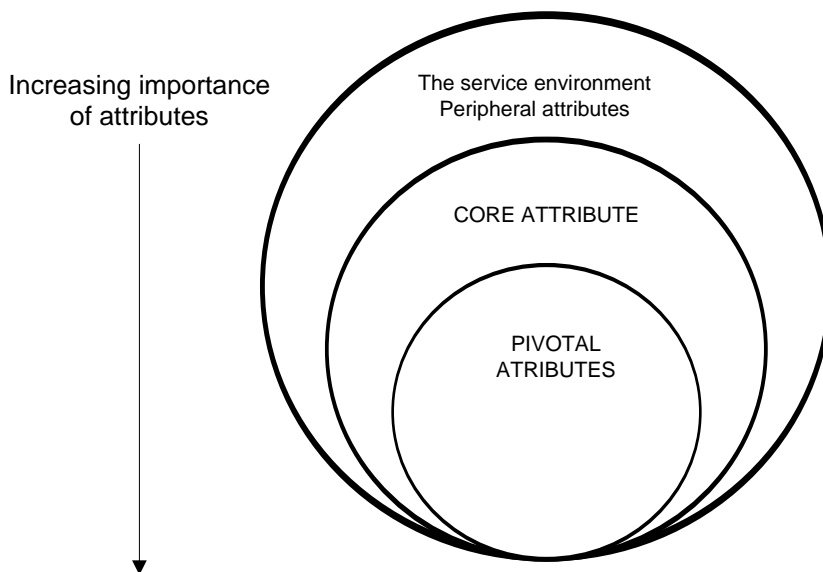
The pivotal attributes, located at the core, are considered collectively to be the single most determining influence on why the consumer decided to approach a particular organization and exert the greatest influence on the satisfaction levels. They are defined as the “end product”, “output” or what the consumer expects to achieve and receive.

Core attributes, centered around the pivotal attributes, can best be described as the amalgamation of the people, processes and the service organizational structure through which consumers must interact and/or negotiate so that they can achieve/receive the pivotal attribute.

The last level of the model is the **peripheral attributes**, which can be defined as the “incidental extras” and it is designed to impress the consumer.

The model demonstrates that service quality consists of three attributes above, which overlap.

Figure 2: PCP attribute model

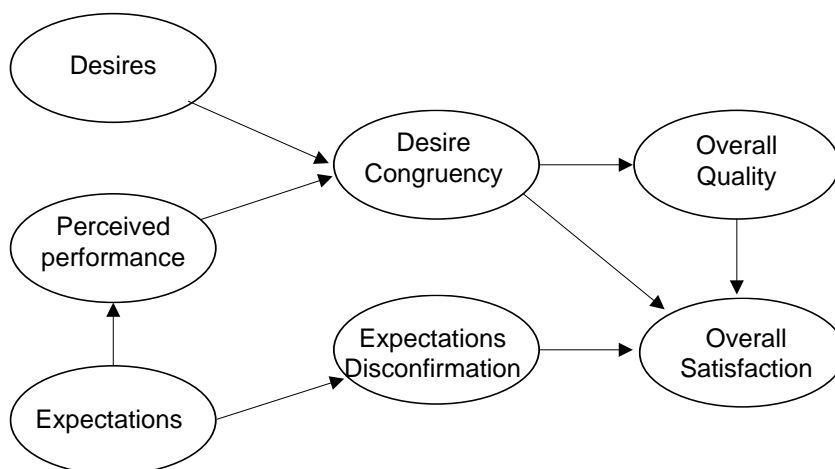


Source: adapted from Philip G. and Hazlett S.A. (1997)

c) Model of perceived quality and satisfaction (Spreng and Mackoy, 1996)

This model emphasizes the effect of expectations, willingness to performance, desired congruency, expectation disconfirmation between service quality and customer satisfaction.

Figure 3: Model of perceived quality and satisfaction



Source: adapted from Spreng, R.A. and Mackoy, R.D. (1996)

6. Conclusions

The quality of the public sector is essential for legitimate governance. The implementation of total quality management in all institutions of central and local public administration involves transparency, credibility and efficiency. The need for the implementation of a TQM program by Romanian organizations is generated by:

- Profit increase. The major objective of every organization is to increase profits. When there is an improvement in the quality of products and services, of the business process and of people, costs are lower, determining the increase of profit;
- Motivating people / employees. Rewarding and acknowledging the individuals involved in TQM are important to maintain and support the implementation thereof;
- Customer satisfaction. The focus must be the customer, offering quality products and services in accordance with its requirements at an appropriate price;
- To become more competitive;
- Crisis management efficiency and effectiveness.

In order to increase the integration of TQM specifications in the Romanian public administration, it is necessary to implement a management contract between the institution and the public manager as a tool for prevention and to provide incentives to improve the quality of products.

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HOW EDUCATION CAN IMPROVE RURAL ENTREPRENEURSHIP. EVIDENCE FROM ROMANIA

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Abstract: *The objective of this paper is to show that rural education and entrepreneurship can be considered as the best solution to reduce poverty, increase food security, reduce unemployment and create economic and social values for the local community. This study attempts to identify and analyze the key factors for the development of rural entrepreneurship through education. The primary contribution of this study is that rural education can improve the rural entrepreneurship in rural areas. The paper concludes with a discussion of the main findings and proposes some recommendations for future research on entrepreneurship in rural communities.*

Key words: entrepreneurship, education, rural economic growth

JEL classification: O13, O18

1. Introduction

In general, South-East Europe, where Romania is found, has a more reduced economy development in rural areas than in Western Europe. Romanian agriculture is still an extensive economic sector. In this respect, the rural areas in Romania vary with regard to their economic development, living conditions and inhabitants' incomes. In post-socialist countries a large share of the population lives in rural areas then in Western Europe. Rural areas in Romania cover over 87 percent of the territory. Almost 47 percent of the inhabitants live in rural areas. The rural population is large but ageing. It represents 28.2 percent of the working population in employment (Romania Statistical Yearbook, 2010). The population density in rural areas is approximately 48 inhabitants per square km.

Rural economic activity has traditionally relied upon agriculture, natural resource industries, processing and marketing of agricultural products, government - related activities, and retail businesses. The economic vitality of rural communities is proximity an urban centre with access to employment, services and social opportunities. Social capital describes the collective value of interactions, relationships and networks that exist between and among community members, and is a key influence on the community business environment. Entrepreneurship development in rural areas is to enhance the improvement of the living condition of the rural inhabitants. Therefore, one of the best means to grow the local economy is to encourage many rural inhabitants to become entrepreneurs. Increasing income is a key dimension of development among poor communities. The best way to achieve this goal is by education and training.

In Romania, many rural areas suffer from persisting unemployment and poverty. Agriculture is an important sector in the Romania economy, contributing between 7 to 10 percent of GDP. The high share of agriculture contribution in GDP shows a great dependence of the economy on agricultural activities in comparison with the Czech Republic with 3 percent or Hungary with 4 percent (Eurostat Yearbook, 2007). However, this is well below its potential contribution. Resources required for agricultural production such as land and water are scarce and cannot be substituted. In agriculture there is a high percentage of labour force with poor productivity and hidden unemployment. The consolidation of small plots into larger ones with the aim of increased productivity and efficiency has become an investment opportunity for rural population. However, we have to consider that agriculture activities run in an open area influenced by natural factors such as water, soil and weather.

Rural areas in Romania face depopulation have inadequate infrastructure and are highly dependent on agriculture, lower human capital levels, reduced access to skilled labour, technology, and equity capital, low purchasing power of inhabitants, and poor entrepreneurial climate in the communities. The young population born and raised in rural areas has a tendency to leave their communities, mainly to advance their education and for a better life in urban areas because rural areas offer few employment opportunities.

In this study, we fill the gap in the literature by regarding how rural entrepreneurship can create new businesses, sustain economic growth of villages, and promote social security and welfare in villages. Therefore, the literature review gives an overall picture on the entrepreneurship, but gives poor evidence regarding rural entrepreneurship. Previous research has pointed out that people from rural areas appear to be less willing to take risks normally associated with entrepreneurial processes (Estrin et al., 2006).

This paper provides a contribution to empirical research on rural entrepreneurship. We aim at providing evidence on the role of different factors to develop the rural economy, particularly through entrepreneurial initiatives. Stimulation of rural entrepreneurship can only be achieved in collaboration with inhabitants from rural areas by taking into account their needs and aspirations. Given the outcomes of our empirical analysis, we also suggest possible solutions for the specific rural region. It is expected that by improving the living standard in rural areas one can increase the attractiveness of this region and promotes sustainable growth. The research was completed in the rural areas from the developing region of Oltenia and focused on the analysis of starting potential of a new business and abilities of entrepreneurs to develop own businesses.

This paper is organized in the following manner. The next section reviews the literature on entrepreneurship and rural economic development. The third section presents the methods used. The fourth section highlights the analysis and the overall results. The final section presents the discussion, limitations, and conclusions.

2. Theoretical background

The rural area is defined as the administrative territory including all communes of the country. Rural areas are experiencing many phenomena such as low quality of life, the lack of infrastructure and services, the ageing population and out-migration, which together generate serious social and economic problems. Rural entrepreneurship does not differ in essence from entrepreneurship in urban areas. However, the economic and social goals of rural development are more strongly interlinked than in urban areas and have strong extended family linkages with large impact on rural community (Carland et al., 1984). In rural areas is difficult to see opportunities that may translate into economic advantages. A rural entrepreneur what tray to start and expand their businesses is treated with suspicion and need to stay in the rural area (Castle, 1998). Entrepreneurship is a basis of long-term economic development.

In Romania during the transition stage the land has been restituted to former owners and privatized by farm workers. Thus, after privatization the rural area was dominated by small farmers. People that received forest back in restriction from state forestry started sawmills. In this respect, some entrepreneurs with earn money start new services like rural tourism or retail. Rural tourism is understood as organizing leisure time and recreation for tourist and offering hospitality services in villages. Therefore, integrated rural development and sustainable development are the best strategies for rural development.

Entrepreneurship can be a vehicle for leveraging existing rural strengths and diversifying local economy and strengthening the businesses from rural areas. It is the dynamic process of creating incremental wealth by individuals who take major risks in terms of financial, social and psychic results (Rauch et al., 2009). The concept entrepreneurship describes strategic thinking and risk-taking behavior that results in new opportunities (Schermerhorn, 2013). Entrepreneurship in rural areas finds a unique blend of resources, either inside or outside agriculture and has strong extended family linkages. In fact, entrepreneurship in rural communities is based on rational behavior of rural inhabitants with scarce resources. It provides the optimal allocation of resources by identifying the strengths, weaknesses, threats and future opportunities in rural areas and creates competitive advantages (Tyson et al., 1994). The land and environment of village provide new businesses such as producing quality food by agriculture as dominant activity, tourism and leisure times, ecologically pure food products, entertainment, and developing processing and complementary industries in rural areas.

The entrepreneurial spirit is seen as a new beginning and the investments in infrastructure (e.g., irrigation), creation of family farms of an “optimal size” and re-launching industrial sector related to the agriculture are essentially the main vectors of growth in rural areas. It is the enthusiastic willingness of an inhabitant to organize a business on his own account. The structure of rural economies is essentially composed of small businesses. Rural inhabitants have a close relationship with the surrounded environment. Small rural businesses particularly rely on resources provided by the entrepreneur and his relatives living in the local area for which the local network of social contacts is a key solution to secure the needed resources (e.g., the network of social links – friends and relatives).

An entrepreneur is a person who takes risks, has initiative and creativity, and makes things happen. Entrepreneurs act as catalysts for economic development and agents of social transformation and change. Creativity is an important attribute of a successful entrepreneur. Therefore, rural entrepreneurship has to be promoted as an effective alternative to attract venture capital investment (Rauch, 2009). They face with major difficulties to obtain the financing to start businesses. Entrepreneurs have to deal with the lack of guarantees for getting loans, dependence on small money lenders for loans and charge high interest rates.

Banks have not facilities to serve rural requirements from inhabitants. It also is very important to develop rural infrastructure and access to markets.

Social capital is the sum of the resources that a rural entrepreneur or a group accrues from the possession of a network of relationships. The local network of social contacts is the means of securing the needed resources (Winborg & Landstrom, 2000). The poor inhabitants have no access to commercial credit because either they cannot put up acceptable collateral or the costs for the banks are too high to make lending to be profitable. Land being limited is unable to absorb the entire labor force. Rural people often migrate to urban areas. Moreover, changes in rural areas as depopulation and land abandonment led to the situation where many inhabitants have departed to find a better standard of living.

Rural entrepreneurship is labor intensive and provides a clear solution to the growing problem of unemployment. Local initiatives seek to encourage the rural development and provide economic solutions to young people to stay in rural areas. Entrepreneurial orientation in rural areas is based on stimulating local entrepreneurial talent. For example, a fruit farm produces apples but it can develop a capacity to produce the apple juice. Thus, farm can bring additional incomes. There are many ways by which people found their entrepreneurial ideas in the existing problems of rural area. The open farms, for example, enables small farms to sell their product directly. This solution allowed individual farms to achieve full-time employment.

The cooperation between farmers can accelerate the rural development because small farmers can organize and optimize limited resources to growth their performance. The vertical integration into supply chains can provide small-scale producers with better market access. By joining isolated and scattered resources, the cooperation between marginalized farmers may be improved (Ronning & Ljunggren, 2007). For example, organic farms have some advantages such as yield, environmental impact, soil restoration, profitability, capability to produce in small areas and sustainable development.

Rural economic development depends on the quality of the rural resource base in terms of human capital, natural capital and available financial resources. Rural education includes vocational education and training, higher education, and lifelong learning programs. Educational approach need to targets diversified groups by focusing priority on the basic learning needs of rural children, out-of-school adults and youth and the rural poor. This approach has effects on the quality of basic education and the opportunities for economic development.

3. Model and hypothesis derivation

In this section, we seek to motivate our hypotheses about the determinants of rural entrepreneurship and how education can influence its development and economic growth in rural area. Therefore, we assume that the model is to be structured in such a way that education acts as a determinant of rural entrepreneurship and led to economic growth. This means that education has a direct influence on rural entrepreneurship and indirect impact on economic growth. This assumption is also in accordance with other research in this field.

Rural schools have limited resources for professional development and limited access within the community for support.

The key to the success of rural entrepreneurship is education. Entrepreneurship requires resources uniquely integrated to create the value and identify of opportunities. The cooperation between farmers can accelerate the rural development because small farmers can organize and optimize limited resources to growth their performance. Basically, entrepreneurship has three dimensions, namely, innovations, risk-taking, and pro-activeness (Lumpkin & Dess, 1996). Skill training combined with to assets could bring the prosperity in rural areas because inhabitants can learn to adopt new technologies in agriculture, increasing the productivity of small farms, and identify new opportunities for businesses in other economic sectors. Thus, education is an important mechanism by which rural inhabitants can change their activities to non-farm work. Non-farm worker can expect better pay. Rural population may have limited ability to engage in new opportunities. Entrepreneurship is the main tool to exploit rural capital.

Innovation reflects a state that supports new ideas, novelty, experimentation, and creative processes (Lumkin & Dess, 1996). Investments in education and training are more important in rural regions and a crucial driver of innovation (Drucker, 2002). Many rural businesses are engaged in agriculture sector or in other activities that have low barriers to entry and high competition such as retail, farms or agro-tourism. Rural development is based on inhabitants that living from agriculture, but agriculture businesses could not absorb all surplus labour. A new business need to attract the innovative entrepreneurs who can identify an opportunity. Therefore, it is necessary to encourage youth entrepreneurship through increasing entrepreneurial spirit and keep intellectual capital in community. Thus, a large part of population from rural community has a wide range of jobs in non-farm occupations.

The innovation potential of entrepreneurs from rural areas can develop organic and quality products, agro-tourism, eco-tourism, education, infrastructure, and health services and so on. Technological advances in agriculture have led to very large intensive farms. These trends are likely to reduce the number of workers needed and raise the skills level required. There are opportunities to invest in non-farm sector because in rural area because there is a lack of infrastructure in public transportation, high-speed telecommunications and access to health care. Entrepreneurs need to identify niche industry and niche markets for both industry and agriculture opportunities. Education is a powerful instrument of social and economic change. Skills development is vital in rural areas so that inhabitants can learn to adopt new technologies in agriculture, increasing the productivity of small farms, and identify non-farm opportunities. Education is an important way for rural inhabitants to change their activities to non-farm work. Investment in non-farm businesses needs to be accompanied by investment in better education and training in rural areas. We, therefore, hypothesize that:

Hypothesis 1. Rural education will be positively associated with innovation of inhabitants in rural communities

The proactive operations refer to anticipating and acting on future wants and needs in rural communities. Entrepreneurial behavior can be defined by a pro-active, aggressive tendency to discover, create and exploit new opportunities. Thus, people from rural areas can capitalize proactively on emerging opportunities (Wiklund & Shepherd, 2003). Businesses in rural areas must adapt more quickly to more changes in more complex environments than ever before. Flexibility and adaptability requires greater capacity to apply best practices and knowledge. For example, encourage the use of environmentally friendly practices such as create sustainable agriculture. Organic farm businesses have a high potential to grow because people are opting for organic food. Organic farming is friendlier to the environment. These businesses focus on given diversity to the land and improving the soil. Entrepreneurship does not focus on current economic problem, but on opportunities that have to be converted into successful business in the future. This performance depends on the level of competences, skills and educational background. Our expectation is that:

Hypothesis 2. Rural education will be positively associated with proactive operations of inhabitants in rural communities

Rural businesses are more vulnerable to systematic risk – seasonal fluctuations and climate conditions. From financial perspective, rural entrepreneurs with marginally profitable businesses are less likely to meet loan requirements. In entrepreneurship, intention is the best predictor of planned behavior. Entrepreneurial intention is a typical example of planned and intentional behavior. Entrepreneurial initiative entails important risks and difficulties, it is clear that entrepreneurship involves some kind of risk-taking. Thus, risk taking refers to the inhabitant's willingness to commit to source of opportunities with a possibility of failure (Rauch & Frese, 2007). Tolerance and positive attitudes towards risk predict the forming of entrepreneurial intentions. Skills and competences of the entrepreneur is seen as a key asset for risk taking because is a specific source of the know-how necessary to start up a business in rural area. Individuals with high education background are inclined to high risk behavior. Given that there is a clear need to carry out empirical studies that examine the relationship between entrepreneurial training and competencies-intention, we propose the following hypothesis:

Hypothesis 3. The education is positively associated with risk taking

Entrepreneurship is widely documented in literature and many authors suggest that it includes innovation, risk taking, and proactive operations (Covin & Slevin, 1991; Zahra, 1996). Rural inhabitants with entrepreneurial initiatives will proactively seek to acquire resources or proactively create innovative resource combinations. All resources need to be allocated proactive to exploit the rich opportunities. For example, rural tourism is a good solution to regenerate of rural areas through combines the advantages of local lifestyle and culture, natural beauty, and creating leisure attraction to customers. Therefore, we propose the following hypotheses:

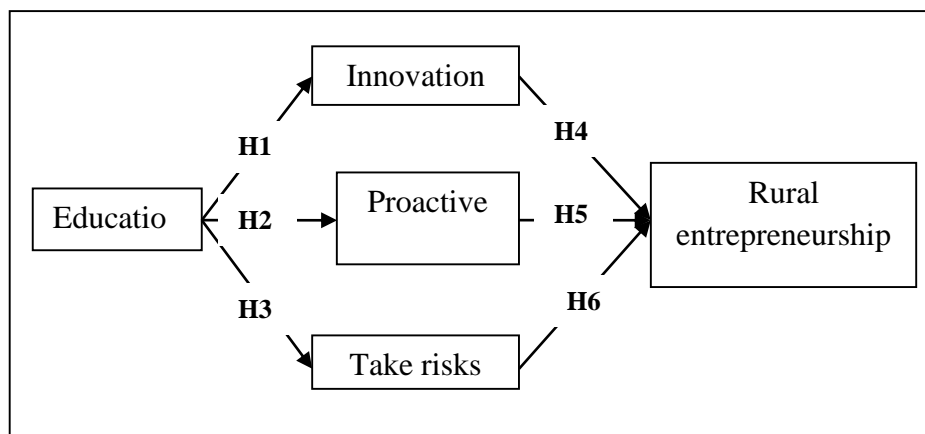
Hypothesis 4. The interaction of education and innovation is positively related to rural entrepreneurship development

Hypothesis 5. *The interaction of education and proactive operations is positively related to rural entrepreneurship development*

Hypothesis 6. *The interaction of education and take risks is positively related to rural entrepreneurship development*

The theoretical model we propose is shown in Figure 1.

Figure 1: Hypothesized model



4. Research design

Sample and data collection

To test the model of the hypotheses empirically, we conducted a survey among students from student that living in villages such as Polovragi, Bălcești, Novaci, Baia de Fier, and others. Only persons living in rural areas were included in the sample. Data was gathered via a questionnaire survey which was divided into two sections, and included both closed - and open-ended questions. In Section 1 of the measure, respondents were asked 10 questions pertaining to education, rural entrepreneurship, take risks, innovation, and proactive operations. Section 2 was designed to collect demographic information regarding gender, age, education, annual household income, and work experience.

In order to verify measurement scales, the preliminary questionnaire was administrated to a 7 alumni. Respondents were asked to review its wording. Based on their observations, minor modifications were made to the test in order to improve clarity and effectiveness. Data was collected. A total of 45 students were approached for this survey and 36 questionnaires were completed and useful, representing a response rate of 80 percent.

The demographic profile of the respondents indicates that female participants comprised 38% of the respondents. The majority of respondents ranged in age from 21 to 24 (62%). More than half of the respondents had possessed a technical graduate degree.

Operationalization of the variables

The survey items were drawn from existing theory-driven research, based on the above conceptual definitions to ensure construct validity. However, some of the instruments were self-development. Based upon a review of the literature, the author engaged in an iterative process of developing items as indicators.

Rural education (RE): We use three measures of rural education: the quality of primary education (QPM); the quality of secondary and vocational education (QVE); the quality of non-formal education (basic skills training for rural youth and adults, including farmers) (QNF). Response to the items was measured on seven-point Likert-type scales anchored by “1- very poor” and “7 – very good”.

Innovation was measured by a 2-item scale. The items on this scale represent the determining of rural inhabitants related to innovation and were developed based on expert interviews with students who live in rural areas. Respondents were asked to appreciate the extent to which they know trends and current economic problems in rural areas (KET) and the extent to which they are excite to apply into practice innovative ideas (INOV). All responses of these dimensions were measured on seven-point Likert-type scales anchored by “1- very low” and “7-very high”.

Risk taking. Two of the six items from Covin and Slevin's (1989) scale were drawn to capture risk taking. We used two measures: many rural inhabitants have an attitude of adventure and enjoy when faced with uncertainty (ADV) many rural inhabitants prefer to face many difficulties and initiate actions as responses (INI). These two measures were standardized and combined to create a comprehensive measure of risk taking. Response to the items was measured on seven-point Likert-type scales anchored by "1-strongly disagrees" and "7 – strongly agree".

Proactive operations were measured by asking participants to rate their perceptions about proactive operations in which they engage on a 7-point Likert scale (1=strongly disagree and 7= strongly agree). These two measures were: many rural inhabitants have an attitude of proactiveness (PRO) and many rural inhabitants are actively involved in solving problems of their rural community (SOLV).

Rural entrepreneurship development was measured by a 2-item scale. Respondents were asked to appreciate the extent to which the rural community from which they come experienced lately a economic revitalization (REV) and the degree to which rural social stabilization was accomplished (STAB). All responses of these dimensions were measured on seven-point Likert-type scales anchored by "1- very low" and "7-very high".

Data analysis

The data analysis was completed in several steps, and descriptive statistics were calculated for all survey items. Person correlation analysis was performed to identify the relationships among the independent variable and the dependent variables. Second, before analyzing our hypotheses, we used factor analysis to test whether the specific variables validly indicated the conceptual variables of the research model. The ten items were grouped using factor analysis to identify the underlying constructs associated with rural education for intensify the rural entrepreneurship activity. Thus, an exploratory factor analysis (EFA) demonstrates that the items formed a single composite and Cronbach's alpha indicates the internal consistency. The Statistical Package for Social Science (SPSS) was employed to analyze the data for this study. Principal component analysis with a varimax rotation was used. Only factor loading above 0.5 were retained. Third, the confirmatory factor analysis (CFA) was conducted to test our hypothesized model using LISREL 8.8. We compared our hypothesized five-factor model to a series of nested theoretically plausible alternative models. Finally, we tested our structural model using SEM through adding or deleting paths from a series of theoretically nested models. We chose the best-fitting model by comparing the goodness of the fit of the models using the chi-square difference test.

5. Results

Exploratory factor analysis was conducted to identify the underlying dimensions of exogenous variables and check if all measured items were related to each factor by a factor loading estimate. Thus, an exploratory factorial analysis was used to identify the underlying dimensions of information. The multi-item constructions were tested by exploratory factor analysis (EFA) with SPSS software. A principal component analysis with varimax rotation was used to create a smaller set of new composite constructs. The solution of this analysis is the number of factors to retain.

Reliability refers to whether the result is replicable, consistent over time and an accurate representation of the total population under study. The scale reliability can be examined by using the results of Cronbach's alpha and average variance extract (AVE) methods. The Cronbach's alpha estimates values were determined to be greater than 0.6, indicating a satisfactory level of internal consistency and high reliability of the multi-items for assessing each construct (Hair et al., 2006). It was calculated for each construct and was found to be greater than the minimum level. The standardized factor loadings were all 0.692 or above and significant at the 0.01 level. AVE is the average amount of variance in observed variables that a latent construct is able to explain. The AVE estimate is the average amount of variation that a latent construct is able to explain in the observed variables to which is related. The square root of the AVE of each construct should be much larger than the correlation of the specific construct with any of the other constructs in the hypothesized model. In addition, all AVE exceeded the recommended 0.50 threshold (Fornell and Larcker, 1981).

Table 1 shows the measurement items with factor loadings, composite reliabilities, and Cronbach's alpha estimates for each construct. As shown in Table 1, five factors were identified with 60% of total variance explained. Convergent validity was satisfactory with all factors loading significant at the 0.001 level.

Table 1: The results of the measurement model

Factors	Construct	Factor loadings	Cronbach's alpha	AVE
Rural education			0.62	0.63
	QVE	0.692		
	QNF	0.891		
Innovation			0.931	0.936
	KET	0.960		
	INOV	0.975		
Risk taking			0.949	0.918
	ADV	0.948		
	INI	0.968		
Proactive operations			0.914	0.912
	PRO	0.947		
	SOLV	0.961		
Rural entrepreneurship development			0.813	0.91
	REV	0.929		
	STAB	0.896		

All standardized factor loadings are significant at $p < 0.01$

A confirmatory factor analysis (CFA) with maximum likelihood was performed to examine if the hypothesized model fits the data adequately. The match is evaluated in the light of various fit statistics. Thus, goodness of fit tests and measures are provided with a LISREL 8.8. These include root-mean-square error of approximation (RMSEA=0.1), comparative fit index (CFI=0.86), normed fit index (NFI=0.78), incremental fit index (IFI=0.96), and $\chi^2 = 256$ (df=68) $p < 0.01$. If IFI, NFI and CFI values close to 0.9 and RMSEA values below 0.08 the model is acceptable. After data processing no single factor explained a majority of the variance. Therefore, our results provide evidence that common method bias was not a weakness of our research.

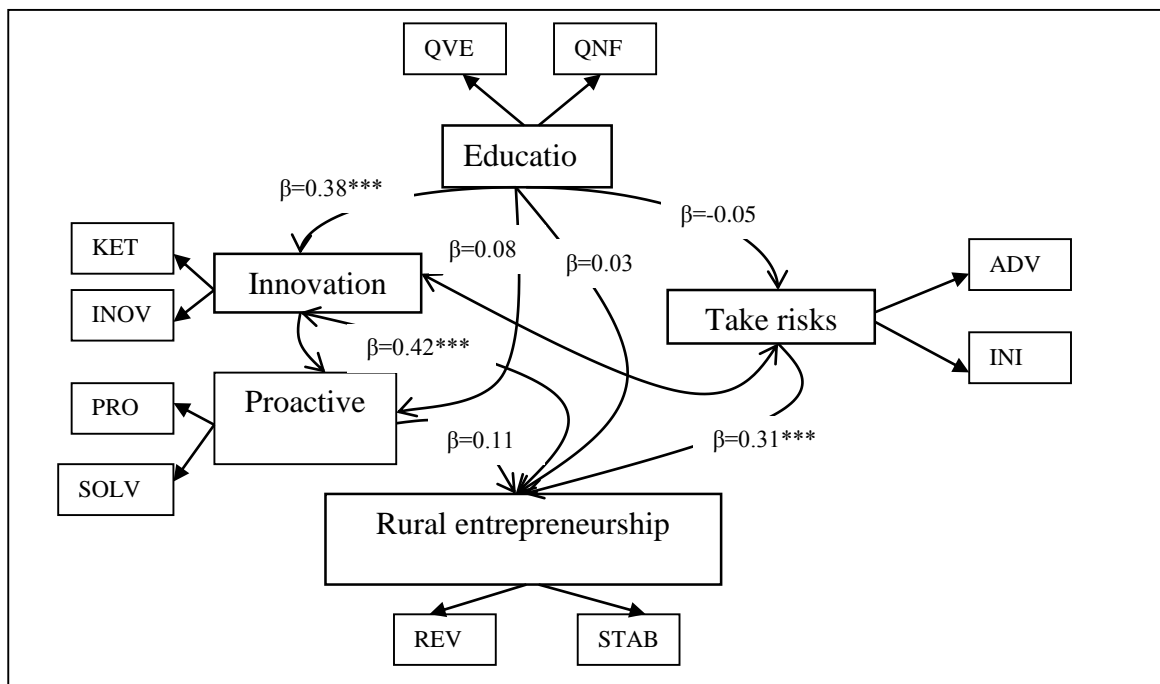
The next step is the application of the structural equation modeling (SEM). SEM is used to study the relationships among latent constructs of our hypothesized model that are indicated by multiple measures. Thus, its goal is to determine whether a hypothesized model is consistent with the data collected by survey. Path analysis is a technique that facilitates the causal modeling of structural relations among observed variables. A directional arrow (\rightarrow) is used to indicate a hypothesized causal direction. Due to the flexibility in model specification, a variety of models can be developed.

SEM was conducted to test Hypotheses 1-6 with LISREL 8.8. Figure 2 presents the standardized path coefficients and associated t-values for all relationships in the structural model. In Table 2 are shown the hypotheses test. Hypothesis 1 suggested that rural education will be positively associated with innovation of inhabitants in rural communities was supported ($\beta=0.38$; t-value=5.92). Hypothesis 2 refers that rural education will be positively associated with proactive operations of inhabitants in rural communities. Contrary to our expectations, the relationship was not significant ($\beta=0.08$; t-value= 0.88). Hypothesis 3 suggested that the education is positively associated with risk taking. Although it seems plausible our test did not confirm. Thus, the relationship was not significant ($\beta=-0.05$; t-value= -0.74). Hypothesis 4 refers that the interaction of education and innovation is positively related to rural entrepreneurship development. This relationships was supported ($\beta=0.42$; t-value=5.81). Hypothesis 5 anticipated that the interaction of education and proactive operations is positively related to rural entrepreneurship development. This relationship was not confirmed ($\beta=0.11$; t-value= 0.98). An explanation of this result is based on the idea that other factors influence proactive operations and as a consequence the rural entrepreneurship, for example, personality or experience of rural inhabitants. Hypothesis 6 suggested that the interaction of education and take risks is positively related to rural entrepreneurship development was supported ($\beta=0.31$; t-value=4.77). It is found that rural education has a significant influence on take risks and the entrepreneurship development in rural areas.

Table 2: Structural parameter estimates

Hypothesized path	Standardized path coefficients - β	t-values	Results
H1: Rural education → Innovation	0.38	5.92	Supported
H2: Rural education → Proactive operations	0.08	0.88	Not supported
H3: Rural education → Risk taking	-0.05	-0.74	Not supported
H4: Rural education and Innovation → Entrepreneurship	0.42	5.81	Supported
H5: Rural education and Proactive operations → Entrepreneurship	0.11	0.98	Not supported
H6: Rural education and Risk taking → Entrepreneurship	0.31	4.77	Supported

Goodness-of-fit statistics: ((RMSEA=0.1), Comparative fit index (CFI=0.86), Normed fit index (NFI=0.78), Incremental fit index (IFI=0.96), and $\chi^2=256$ (df=68) $p<0.01$)

Figure 2: Structural equation model

*** $p<.001$

6. Discussion

This study makes several significant contributions to literature on entrepreneurship and rural economic growth. First, we argue that the accessibility of education in rural areas may be lower and this factor has an inhibiting role. Rural population is not characterized by a high level of education. Although the existence of experienced entrepreneurs is extremely limited, the education, training and financial support are the key factors to develop the entrepreneurship in rural areas.

Second, we noticed that in rural areas the existence of experienced entrepreneurs is extremely limited. Many respondents suggested that by providing more education on entrepreneurship for young people will ensure the viability of communities in rural areas remain especially important for the economic prosperity of communities. Respondents said that farmers, unemployed and private sector employees did not have opportunities to pursue entrepreneurial training although they are willing to participate in these programs. Almost all respondents believe that people from rural areas are less informed about business opportunities than those from urban areas because they do not know where to find the right information, they do not have time to seek them and they are not helped to find them.

Finally, we go beyond the statistic construct of our hypothesized model. We believe this conceptualization is useful for explaining why rural inhabitants don't have a positive attitude of proactiveness and they are not actively involved in solving problems of their rural community. A focus on entrepreneurship is insufficient in rural areas because there are some distinctive characteristics of rural

businesses, such as the small size of local markets, the small size and skills base of local labor markets, and limited opportunities to trade with others. This explanation enriches our understanding of the possible mechanism by which rural education can improve rural entrepreneurship. Improved education is a key to the future of rural areas. In rural areas, local roads have a key role in ensuring access to national infrastructure of roads.

Practitioners can also draw important lessons from our analysis of the rural education role in the improvement of entrepreneurship process in rural areas. Education quality and rates are lower among the workforce in rural areas when compared to urban areas. Poverty rates are highly in rural areas when compared to urban areas. The decreased living standards of people, lack of critical mass for services and infrastructure, the migration of people from rural areas, and the lack of education among rural people are the main driver of entrepreneurial initiatives in rural areas.

Rural entrepreneurship can reduce poverty, increase food security and reduce unemployment. Most actors in agricultural value chains do not really trust each other. Therefore, in rural areas need for an improvement of social interactions. Social capital describes the collective value of interactions, relationships and networks that exist between and among community members, and is a key influence on the community business environment.

In Romania, another major issue is the reintegration into the local labor markets of the returned emigrants from the European countries such as Spain, France or Italy. On the other hand, migrants return to Romania with improved skills and financial resources. This could have positive effects on the rural economy. It also is necessary to rebuild trust, innovativeness, autonomy, risk taking, and proactiveness of the people in rural areas.

In spite of its contributions, this paper has several limitations. First, the size of the sample is inadequate. We conclude that while the sample has a certain level of representativeness, there is as usual, need for caution when generalizing the results of this study. Therefore, another future research is the development and use of appropriate samples. In this study, a small but important step was made in the development of scale and empirical work.

Second, future research could be oriented to redefine the variable that compose the critical constructs of the research (rural education, innovation, take risks, proactive operations, and entrepreneurship development) in order to try to explain the process of economic development of the rural areas. We can try the following factors for economic growth in rural areas such as ageing population, unemployment, living conditions, poverty, education, declining agriculture, health services, climate change, small local market, and soil quality

7. Conclusion

The main contribution of this research is to examine the effectiveness of structural equation model to analyze the respondents' attitudes towards rural entrepreneurship. The present study showed that rural education can contribute significantly to improve the entrepreneurship in rural areas through the involvement of mediation factors as innovation and risk taking. On the other hand, we found that proactive operations are not significant in this process.

Based on the results of the present study, governments must act faster, need to be more transparent, and more flexible. This study suggests that government should give serious attention to develop rural entrepreneurship by promoting entrepreneurship to young generation. Rural communities may benefit by attracting younger, educated entrepreneurs in their areas. Employment opportunities are particularly restricted in the case of people with low qualification or poor education. Thus, what is needed is the development of institutions supporting entrepreneurial restructuring in rural areas to absorb this workforce.

8. Acknowledgement.

We would like to recognize the students which contributed to the administration of the questionnaire and helped to collect the data used in this study

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INSTRUMENTS OF EUROPEAN PUBLIC POLICY IN EDUCATION

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Abstract: *In our opinion, the benefit of using open method of coordination in education and vocational training lies in the fact that this facilitates mutual learning and comparison, and as a result, may limit the political inherent risks in period of changes and reforms.*

Effectiveness of change and reform is increased when their design is based on the best experiences gained, already, in Europe and, if possible, outside; effectiveness may be implemented in the light only in a context that makes it possible comparisons with other European or non-European countries.

Key words: reform, best practices, LLP- Life Long Learning Programme

JEL classification: I2

1. Introduction

In February 2002, the Ministers responsible for vocational education and training in the EU and the European Commission have been drawn up following purposes, to be achieved by the year 2010, "for the benefit of citizens and EU as a whole":

- in education and training it will reach a level of superior quality, so that Europe should be recognized as global referential in the quality and relevance of the systems and its institutions of education and training;
- systems of education and vocational training in Europe will become sufficiently compatible to enable citizens inter-systemic mobility, in order to benefit, fully, of the advantage of diversity;
- those who hold qualifications, knowledge and skills acquired in any country in the EU, they will be able to validate, actually, anywhere in the EU, for the benefit of career or pursuing studies;
- Europeans, of any age, will have access to lifelong learning;
- Europe will be open to cooperation with all world, in mutual benefit, and it will need to become the favorite destination for students, pupils and researchers from other continents.

All these purposes are ambitious, but deeply realistic. They have marked the beginning of a new phase in the development of education and training in the context of EU, based on words "variety of systems sharing common purposes". These shared purposes will inspire and guide reforms, as will boost progress in each country, as well as actions at the extended level of the EU, as a whole. The Council of Education and the European Commission have adopted, at the same time, "The detailed program of work on the future objectives of education and vocational training systems in the EU". This Program is articulated around three strategic objectives defined in Stockholm, which was reflected in the 3 specific strategic objectives of education and training systems, such as:

Strategic objective 1:

Improving quality and effectiveness of education systems and those of vocational training in the EU, in light of new requirements of knowledge-based society and changing paradigm in the field of teaching and learning.

Specific objectives circumscribed to this strategic objective are:

1. improving initial and lifelong training of teachers and trainers;
2. developing skills for the knowledge society;
3. ensuring access to IT&C for all;
4. attracting a greater number of pupils/students to profiles as mathematics, science, technology;
5. most efficient use of the resources.

Strategic objective 2:

Facilitating access, for all citizens, to the education and training systems in light of the guiding principle of lifelong learning, in order to boost jobs creation, career development and active citizenship, including equal opportunities and social cohesion, being established following specific objectives:

1. creating an open learning;

2. increasing the attractiveness of education;
3. promoting civic spirit, equal opportunities and social cohesion.

Strategic objective 3:

Opening systems of education and vocational training for the rest of the world, from the perspective of the fundamental need to highlight relevance for work and society and to face the challenges derived from globalization.

It is materialized through the following specific objectives:

1. strengthening connections with the labour market and research, as well as with society as a whole;
2. developing entrepreneurship;
3. improvement learning of international languages;
4. increasing the number of mobilities and exchanges;
5. strengthening European cooperation.

The program has established key problems that must be solved in order to achieve strategic objectives and those specific subsequent; it is pervasive, covering segments and various levels of education and training, from basic competence up to vocational education and higher education, with special focus on the principle of lifelong learning. At the same time, program identifies and main instruments that must be used in order to boost and measure the progress, by applying "open method of coordination" as defined in Lisbon as a means to accelerate the convergence of national policies to shared purposes and by comparing achievements to be obtained in the EU, from both perspectives: internal and from the point of view of the outside world.

With the adoption of this Program, the Ministers of Education and the European Commission launched an important message in their common report to the European Council:

- no matter how effective it would be policies in other areas, the transformation of Europe in the most competitive economy in the world, knowledge-based, it will be possible only with the crucial contribution of education and training as factors of economic growth, innovation, sustainable creation of jobs and social cohesion. The importance of education and training has been increasingly recognized, since 2000, but Barcelona European Council has been requested, firmly, to go further and recognize explicitly vocational education and training as key priority areas in global strategy of the Lisbon process;
- being determined, clearly, their crucial role in Lisbon process, it should be noted that education and training are more than just tools for the creation of more and better jobs, they having responsibilities much wider for citizens and society. Beyond equipping Europeans with what they need for professional career, education and training contribute to their personal development for a better life and a civic active spirit in a democratic society, which fully respecting cultural and linguistic diversity. They also play a very important role in building social cohesion, by preventing discrimination, exclusion, racism and xenophobia and, hence, in promoting fundamental values shared in Europe named, generically, European values that, for example, the tolerance, social solidarity and respect for human rights. Creating a European area of education and training, cohesive and open, will be of the highest importance for the future of Europe and their citizens in knowledge and globalization world area.

As a result, both ministers responsible for vocational education and training, as well as the European Commission have gone beyond the invitation of European Council working on common objectives, recognizing its responsibility and asserting its determination to have all necessary initiatives to a comprehensive response to the challenges of globalization and knowledge-based society, as well as EU enlargement. So, since 2000, several measures have been taken in the direction of lifelong learning and opening, in a wider perspective, on the whole world. First results have been already obtained in the Member States and at the EU level that, for example, in the field of increasing mobility, improving basic skills, facilitating access to learning, assessment and quality assurance, eLearning and cooperation with non-member countries of the EU. These "steps" do nothing but "pave" the way towards fulfillment, by 2010, the set of ambitious targets for the benefit of all, on which the ministers of education and the European Commission had taken on 14 February 2002.

In March 2002, Barcelona European Council has adopted the detailed Program of work proposed by the Council of Education and the European Commission.

The European Council has defined, at the same time, a new concept in public policies: a new approach to coordinate the policies, applicable in fields such as education and training: open method of

coordination; it has been defined by the Council "as a means for the dissemination of best practices and to obtain a greater consistency towards the most important aims of the EU, and is designed to help the Member States to develop progressively their own policies".

The method will be applied as an instrument for the development of a coherent and comprehensive strategy in education and vocational training, within the limits of Article 149 and 150 of the Treaty of Amsterdam on EU. The Council of Lisbon has indicated that the method will be used in a decentralised approach, using various forms of partnership. Means of implementation involve instruments of the following type:

- benchmarks - are concrete targets, qualitative or quantitative, for a given year or a certain period of time, in absolute or relative terms (for example, a target-rate of change or growth);
- indicators - some series of data, mutually agreed, which can be monitored over time, as a proof of progress or development in policy area covered;
- exchange of good practices between Member States on measures of public policies which have given good results, and which therefore can be used as a basis for future policies development;
- peer review - assessment of policies: illustrates the situation when a Member State submits certain measures subsumed to a public policy, an evaluation, reviews criticism from other Member States and is willing to receive, whenever necessary, comments and opinions on political measures in question.

2. An integrated approach to common policy development

Responsibility for achieving common objectives belongs, firstly, to the Member States. In the limitations imposed by EU treaty, but using open method of coordination, the main task of the Council and the European Commission will be to do their best to make things happen, supporting Member States in their efforts to improve their own education and training systems in order to attain the objectives, in three ways:

- by coherent comparison with others, on the basis of the indicators and concrete targets;
- by sharing of experience based on identification of the key success factors or developing initiatives and experiments carried out in other countries and by transnational peer reviews. In addition, implementing process of the objectives involves and states from European Area of Free Trade and the candidate countries to EU integration;
- a single strategy, comprehensive for education and vocational training.

Over the previous few years, have been agreed at EU level, a number of actions aimed at some of the objectives of the detailed Program of work; it is, in particular, about public consultation and of the Communication on Lifelong Learning or about Bologna process. Implementation of these initiatives of educational policy must be integrated in the three strategic goals and specific objectives of the detailed Program of work, in a single comprehensive framework of approach. Thus, they can be improved consistency and coherence, as will be avoided double work, the entire process "of objectives" and can be guided by the principle of lifelong learning and placed in a global perspective.

This integrated approach is conducted and monitored by the European Commission in close cooperation with the Council of Education.

Implementation of the detailed Program of work is also supported by deepening potential of European cooperation and in other forms, such as:

- new priorities for specific sections of Community programs as Socrates and Leonardo da Vinci, Life Long Learning Programme and the actual Erasmus+ Programme;
- action plans, study visits of decision-makers in other countries;
- comparative and prospective studies;
- statistical investigations;
- pilot projects;
- etc.

Many of these are based on work carried out in other international organisations that, for example, the OECD or the Council of Europe, European network and various NGOs, diagrams of cooperation or pilot projects between some Member States or candidate countries (such as, for example, on the topic of sustainable development or skills).

An item with great difficulty in the potentiation of European cooperation is given by the project of new generation of Community programs, called "Integrated Program for lifelong learning", designed to be carried out in the period 2007-2013 and the actual Erasmus+ Programme, by bringing together, in a synergic

manner, Socrates and Leonardo da Vinci programs and having a budget substantially increased, founded in such a way as to be assured of achieving concrete targets, as set out in the detailed Program of work for some objectives that, for example, increasing mobility and exchanges.

3. Implementation of objectives

Detailed implementation of the Program of work on the future objectives of education and training systems will concern all objectives in a coherent manner and, thus, will deepen their European added value. Working on them has begun in 2001 (skills for the knowledge society, mathematics, sciences and technology, IT&C use).

Practically, it was made up a limited number of working groups (the "working group on the objective"), which have been occupied by one or more specific objectives; in these groups were included experts nominated by participating countries and they have been taken into account the opinions of representatives of the European Commission, as well as representatives of the interest groups of education and vocational training (university professors, teachers, instructors, NGOs), as well as of some specialized agencies of the EU that, for example, CEDEFOP), Eurydice, ETF or other organisms from outside the EU, such as OECD, UNESCO and the Council of Europe. The task of these groups is to ensure the effective progress towards achieving the objectives that they are dealing with, which implies different types of activities for the implementation, in particular:

- an inventory of activities, which could contribute to attaining the objective;
- opinions aimed at appropriate indicators, appropriate concrete targets and methods for the collection of data;
- identification of a set of best practices, including analysis of "critical factors for success" and, possibly, some visits;
- advice on the exchanges of experience in the form of dissemination of good practice examples and, on request, peer review;
- monitoring the progress in order to achieve the objectives, using, in each case, the most relevant and available qualitative/quantitative tools.

For each objective will mix, in different ways, some of the mentioned activities and will choose, in each case, the most appropriate instruments, in order to allow focusing the action and using the financial and human resources limited in the most efficient way.

4. Concrete targets and indicators

Indicators and targets issue is crucial for the entire process. Detailed Program of work includes only an indicative list of indicators and only provides a central target, directly adopted from the conclusions of the European Council in Lisbon.

Many of the indicators to be used shall be based on existing statistical data that, for example, common data collections of UNESCO, OECD or EUROSTAT. In some cases, there are national data and progress can be measured, but comparisons between states are rather haphazard. It is necessary to develop a few new indicators, as it is necessary to a methodology agreed by all, common definitions, mode of data collection, etc. It is, however, an expensive and time-consuming process, as a result, it is necessary to establish priorities, with the aim of focusing efforts towards a small number of well defined key indicators.

Implementation of the detailed Program of work requires a continuous and well structured support from the working group "indicators and concrete targets", consisting of experts appointed by participating countries, by the CEDEFOP and Eurydice. The group role is to provide views of experts and advice on the use of indicators and "targets" inside the coordination process as a whole. The first step was to study and to revise the indicative list of indicators proposed; it was an exercise of mapping, comparing different indicators referred to in the program of work with what is available at national and international level. On this basis, the group role is to provide professional advice on usability and comparability of existing indicators and the possibility to develop or adapt new ones.

Detailed program of work also opens the possibility to set European concrete targets - where is feasible -, provided to obtain a consensus in the Council of Education.

As a way of working, the final list with concrete targets and indicators proposed is subject to annual approval of the Council, by the European Commission.

5. Exchange of experience: learning from good practices and peer review

Mutual learning is a central component of the open method of coordination and a major way that can help improve education and training policy at national and regional level (hence the huge importance

that have had and will continue to have Community cooperation programs Socrates and Leonardo da Vinci, LLP, Youth in Action, Erasmus+, as they create actually the field for concrete experiment of mutual learning through transnational cooperation).

The most important aspect of work in this area is to identify critical success factors of the good practices in certain countries or institutions. This will be an essential part in activity of each group on objectives, based on the experts advice and on diversity of points of view expressed by all participants.

The experts analysis on selected experiences as examples of good practice will follow some guidelines, namely:

- identification of a list of good practices, examples or innovative practices at national, regional or local level (must be observed specific contribution of programs Socrates and Leonardo da Vinci, LLP with their essential component for the dissemination and capitalization);
- identification of the critical factors of success, for example, what makes a pilot project, an experiment or a reform to be successful in a certain context and which are the basic elements which may be taken into account, in order to learn from this success and, eventually, transferring it to other
- making recommendations for each theme, based on an analysis carried out.

Here it is appropriate to mention a few words about peer review which, as yet, it causes some reluctant among Member States. The concept of transnational "peer review" was included by the European Council as one of the available tools for open method of coordination but, as regards education and vocational training, peer review will be used only at the request of the Member States.

Some reports on the implementation of the Program, carried out jointly by the European Commission and the Council of Education, have been subject to the European Council approval, representing an overview on the process as a whole and reviewing activities and the results obtained. Surprisingly, this report shows a disappointing status as a matter of fact: it has advanced, but very little; the progress was insufficient, and there are a lot of things to do although there is a stable platform for cooperation, have taken too few coherent measures in support of lifelong learning. In the field of vocational training, the measures taken to increase the quality are insufficient and even unattractive, as the mobility schemes for education and training are also insufficient; EU remains, still, behind its main competitors and many alarm signals are still active: the dropout rate remains high: 20% drop prematurely; there is an insufficient number of qualified teachers and trainers in the Europe: 27% of primary teachers and 34% of those in the secondary cycle have more than 50 years, almost 20% of young people do not have the basic skills and too few adults participate in lifelong learning programs.

6. Conclusions

Knowledge of critical factors, which have led to the success of reforms in another country, it is essential for the transfer of best practices which, otherwise, would have degenerated into a simple copy of activities and might lead to disappointing results. Last but not least, the fact of knowing that other Member countries of the Union shall endeavor to introduce change in a certain direction, will encourage reforms and will reduce political risks involved. All these advantages are brought to the open method of coordination, as a key tool for implementing, successfully, the detailed work Program on the future objectives of education and training systems in the EU.

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ETHICS MANAGEMENT – LEGAL BACKGROUND IN EUROPEAN UNION

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Abstract: *The paper presents the regulations in European Union in the area of ethics management, the aim being to better understand situation in Romania and identify causes for unethical behaviour. Research goals are: establish a relation between regulation and ethical climate; highlight the measures that could improve ethics management in Romania; propose a direction. Expected results refer to the applicability of regulations in European Union, a comparative analysis that could help managers to reduce unethical elements.*

Key words: ethics management, regulation, European Union

JEL classification: M19, M38, M54

1. Introduction

Ethics management is not a new domain, but it is not applied based on scientific guidelines in Romania. For that, we should have at least some ethical experts in order to implement ethics management in organizations. My argument is based on the Corruption Perceptions Index that places Romania on the 69-th position from 177 countries, with a score of 43 points, on scale from 0-100, where 0 means corruption and 100 means clean (Transparency International, 2013).

Objectives of the paper include a comparison between regulations on ethics and ethics management in countries from European Union, in order to identify opportunities and measures for our country to create a more ethical climate.

Research methodology includes documentation of professional literature, analysis of law documents, synthesis and a comparative analysis between ethics management in EU and also in our country. The differences observed in the Corruption Perceptions Index are definitely related to a poor implementation of ethics management in public and private structures.

2. Legal background for ethics and ethics management in EU

A study of EIPA (European Institute for Public Administration) from 2004 refers to ethics in the member states of European Union. The EIPA study presents the measures taken by member states of EU, all these creating a better ethical climate and also contributing, in my opinion, to a higher rank in the Corruption Perceptions Index realized every year by Transparency International (table 1).

These measures are:

- Punitive (there is also a need for this kind of actions, but they do not work isolated)
- Codes of conduct (the name may differ from state to state; in one of them we could find codes of ethics of ethics codes). These codes are like guides, but managers have to implement them, so that all members in an entity should know them, understand and apply.
- Training is important, because it offers the opportunity to anticipate some situations and prepare for the ethical solution.
- Commitment from political forces
- Working conditions, such wages, can interfere in maintaining an ethical climate. It is known the correlation made between the level of salaries and ethics, because employees with low income, are supposed to be more corrupt and less ethical.
- Other measures

Table 1: Measures for an ethical climate in member states of EU

Measures	Countries
Punitive measures	Great Britain, Spain, Germany, Ireland, Luxembourg, Greece, Hungary, France, Portugal, Sweden, Holland
Codes of conduct	Great Britain, Spain, Ireland, Greece, Hungary, France, Portugal, Belgium, Holland, Denmark, Italy
Training	Great Britain, Spain, Germany, Ireland, Greece, Hungary, France, Portugal, Austria, Poland, Belgium, Holland, Denmark, Italy, Finland
Commitment from political forces	Great Britain, Spain, Germany, Ireland, Hungary, Portugal, Austria, Poland, Holland, Denmark, Finland
Working condition (wage)	Great Britain, Spain, Germany, Luxembourg, Greece, Hungary, Austria, Poland, Denmark, Italy
Other measures (Managers' commitment, Shared culture related to ethics)	Finland, Sweden

Source: EIPA, Ethics in Public Sector of EU member states, 2004

Codes of conduct are a good instrument in ethics management, but not all countries understand the same thing by them. In Hungary, for example, codes of conduct are more like recommendations, In Italy, they have a disciplinary value, in Great Britain, and they are integrated in labour legislation, being a condition for employment in the public service.

Some of the subjects referred to in the codes of conduct in almost all countries are: forbiddance to receive gifts or favours and in some countries, the necessity to report them, if there is an attempt; conflict of interests; procurement; public expenses; confidentiality; corruption; bribe; harassment; lobby.

Ethical codes should not be copied from an organization or country, because they should reflect the common values of the entity we try to implement the codes. Communication of codes of conduct is even more important, because a lot of organizations or public institutions have these codes, but employees are not aware of their existence or if they are aware, they do not know where to look, in order to read them and understand. In many cases, these codes are not communicated, you cannot ask and you are not answered.

In my opinion, ethical training is important, because managers can communicate and explain different potential ethical situations that are not well explained in codes of conduct. These codes can also be communicated to employees by Internet, Intranet, brochures or even personal e-mail like in Great Britain. In public institutions, there is a need for an ethical structure with integrity officers (for example, ethical experts), that make possible the reporting of ethical violations.

General tools used by ethics management are summarized in table 2; we mention that Romania doesn't really apply a lot of these, even if officially, they exist. So, connection between the poor score in the Corruption Perceptions Index from the last years and these lacks in public management is strengthened.

Table 2: Tools of ethics management

Tools	Ethics management and regulations in Romania
Codes of conduct	Exist, but they are not very well disseminated among employees
Transparency systems	Bureaucracy is still an obstacle
Training	Ethical courses do not exist or they are just something to be checked
Communication	This is defective, ethical issues like corruption, harassment, plagiarism or other being considered sensitive or even a taboo subject.
Counselling	Ethical counselling and hotlines are not very common, people are not very confident in colleagues or supervisors and tend to keep secrets rather than reveal them.
Whistleblower hotlines	
Control	In many cases, control is not a constant function in ethics management in Romania, so when problems appear, it is often too late.

Source: own analysis

Codes of conduct must be written after a public debate, in order to comprise all possible ethical vulnerabilities that can appear in an organization or institution. The problems of implementing codes of conduct starts from their creation, because they have to be the results of employees' involvement. For example, the Czech Republic uses a survey to generate this code, United States sent the code for debate and after the approval, it was published with all the comments and explanatory answers.

According to Transparency International (2003), the highest score in the Corruption Perceptions Index was 91 (meaning transparent and clean) achieved by New Zealand and Denmark. Countries with scores between 70 and 90 were: Finland and Sweden (89), Norway and Singapore (86), Switzerland (85), Netherlands (83), Australia and Canada (81), Luxembourg (80), Germany and Iceland (78), United Kingdom (76), Barbados, Belgium and Hong Kong (75), Japan (74), United States and Uruguay (73), Ireland (72), Bahamas, Chile, France and Saint Lucia (71).

The Organization for Economic Co-operation and Development (OECD) presents the codes of conduct for public servants from a lot of countries, one of them being recently updated. On their official website, we found some recommendation readings for this domain. One of them was the paper of Gilman (2005) that analyses the situation of ethics codes and codes of conduct in several countries, focusing especially on public sector.

The author highlights the importance of writing codes and also of communicating and disseminating them after they were written down. Public managers must have a communication strategy in order to insure the ethical climate, otherwise a great code may become the worst: "Without effective communication a code, no matter how good it is, can lead to great cynicism among government officials and the public".

Writing codes and communicate them is not enough, because they are not implementing themselves, they need to be implemented by a commission, that also controls the way employees respect guidelines from ethical codes. And here appears the need for counselling and ethical trainings in an organization. There are lot of situations in which codes do not function well and this is the reason they have to be continuously updated. Menzel (1996) appreciate that failure of ethical codes cannot always be avoided, because people change, systems change and in some cases, they need to be adjusted to these changes.

Gilman summarizes some features of a good and successful code of conduct: principles must be both cognitive and emotional; be clear and concise; written in common terms, because they are addressed to ordinary people, not to specialists in law or ethics; sanctions must be in accordance with unethical violations; connection with some laws.

According to Palidaukaite (2003), in countries like Denmark, Sweden, Finland and Netherlands, there are no formal codes of conduct for public servants, but even in these conditions, the scores achieved by them in the Corruption Perceptions Index from 2013 were from the highest (91 for Denmark, 89 for Sweden and Finland and 83 for Netherlands). So, these European countries have an ethical culture that is shared by the community, even in the absence of an official paper.

But, in our opinion, codes of conduct are needed in other countries, because there is not a natural ethical culture everywhere. Ethics must be learned, before becoming a common value, shared by all members of a community. You are not born being ethical, these models of ethical behaviour are learned and after some time, it is integrated in your system of values.

The author shows in his article that countries from Eastern and Central Europe are not very familiar with these codes, they implemented mostly as a bureaucratic measure, not for the public interest. Although, integration of these countries in European Union created some pressures in order to implement some ethical procedures. Romania was mentioned by the author among the countries being in the process of developing professional codes of conduct.

In 2004 there were adopted two laws with regard to the conduct of public officials: Act on the Code of Conduct of public servants and Act regarding the Code of Conduct of the contractual staff. There were also adopted some specific codes for Police, Customs and the National Office for Preventing and Combating Money Laundering (United Nations Office on Drugs and Crime, 2005).

On UNODC website, we found a list with the following codes of conduct from Romania:

- the ethical code for the fiscal control inspector and for the internal auditor, both approved by the Finance Ministry
- the deontological code for the National Commission for the Evaluation and Accreditation of Pre-university Education, approved by Education Ministry
- the code for people working in the Ministry of Defence (military or civil)
- the deontological code of physicians
- the code of conduct for clerks
- the deontological code for judges and prosecutors
- the code of ethics and deontology for policemen.

There are a lot of debates among specialists in ethics regarding the effectiveness of these ethics codes or codes of conduct. We are surprised in a good manner by the point of view offered by Kaptein (2008) in his amazing book “The Living Code”. What seems new is his formula of effectiveness for these codes:

$$\text{Effectiveness of code} = \text{Content or Embedding}$$

The author considers that there are four possible outcomes deriving from the formula above and these are summarized in table no.3.

Table 3: Effectiveness of ethics codes

No code Risky and missed opportunity	Bad embedding Dead code	Good embedding Living code
Bad content	Ineffective	Counterproductive
Good content	Counterproductive	Effective

Source: Kaptein, M., The Living Code, Greenleaf Publishing, 2008

So, we can have a code with a bad content, but also with bad embedding, situation in which we have an ineffective code. This is not the worst case, because such a code which is not well embedded could not harm the community (from an organization, institution), but it may become a weakness for the entity.

If we cope with a bad content, but a good embedding, we must take urgent measures, because this means that we have a counterproductive code of conduct. The risks are higher than in the previous case and the disadvantages are numerous, because managers disseminate a code with flaws. Good embedding is a need quality for ethics management, but is very dangerous, when we deal with bad codes in content.

The opposite case of a counterproductive code is represented by a code with good content, but bad embedding. With a strong communication strategy, ethics managers from an organization could correct this situation and change a counterproductive code into an effective one.

The ideal situation is when companies have good content combined with a good embedding. This is an effective code or how the authors named it – a living code that have to be embedded into the corporate DNA. That does not mean that this case maintains itself unchanged over time. An effective and a living code must be always updated and adjusted in accordance with the evolution of a company, of a society and also of people.

According to Kaptein (2008), managers have take into consideration three main factors, in order to have effective and living codes of ethics and embed them into the DNA of their organization. These factors are presented in a code cockpit and they are: general social development, pressure of stakeholders and developments within the company, because evolution and progress must be considered. The author presents the four characteristics of this type of code: comprehensive, morally justifiable, authentic, manageable and morally progressive.

Other authors approaching the living code of ethics are Verbos et al. (2007), who define it, as: “the cognitive, affective, and behavioural manifestation of an ethical organizational identity within a positive ethical organization” (p.22). They consider that a written code is something formal, but a living code is a way of life for people that see ethics as the sole option.

Verbos et al. (2007) appreciate that managers can achieve a living code of ethics taking into consideration five processes:

- the Attraction-Selection-Attrition Process (managers should hire or fire people having a similar ethical identity with the one in the organization)
- the Socialization Process (formal and informal socialization help people to understand what ethics means and what is its role for the organization)
- the Reward System (reward or punishment for ethical or non-ethical behaviour)
- the Decision Making Process (leaders have to incorporate ethics in the process or making decision, being real ethical models themselves)
- the Organizational Learning (it refers to the way an organization gathers information and applies ethical norms to various situations).

The model proposed by the authors in order to create a living code of ethics is presented in figure 1. We understand that, in authors' conception, the ethical identity of an organization and its living code of ethics derives from the connection between three components: authentic leadership, aligned processes and ethical organizational culture.

Figure 1: Model of Living Code of Ethics



Source: Verbos et al., The Positive Ethical Organization: Enacting a Living Code of Ethics and Ethical Organizational Identity, *Journal of Business Ethics*, no.76, 2007, p.19

Another author that analyses the connection between ethical management and just following laws is Thornton (2013), according to whom there are three levels of ethical leadership, presented in figure 2.

Figure 2: Ethical Leadership levels



Source: Thornton, L., *7 Lenses: Learning the Principles and Practices of Ethical Leadership*, Leading in Context Publisher, 1st edition, 2013

The first level is the one in which managers try to keep their companies out of jail, following laws or find some flaws in them to allow them take controversial decisions, at the limit of regulations. Ethics codes are just a formality at this level. The middle level is specific for managers that respect laws and ethics, but do not make additional efforts for an ethical leadership in their organization. The last level means that managers act like authentic leaders applying ethical principles in the entire organization and in relation with all employees and decisions they take.

3. Conclusions

The article presents different views on ethics management and regulations regarding ethics in countries from European Union. Our conclusion is that states with a high score on Corruption Perceptions Index do not have some formal codes of conduct, because ethics is a way of living. In our opinion, tools of ethics management, like codes of ethics or others are needed in most countries, because a lot of specialists agree that a living code of ethics derives from good codes with a great dissemination among members of a community.

There is not a direct connection between existence of codes of conduct and a general morality in a country or at a smaller level (organization, institution), but these create a background for a better ethical

climate. Communication of ethics in different forms is also very important, because good codes without dissemination are useless. At the same time, we conclude that codes of ethics are just a little and insufficient part of ethics management, because there are a lot of tools that should be correlated in order to assure the increase of ethical behaviours.

4. ACKNOWLEDGEMENTS

This work was partially supported by the grant number 25 C/ 2014, awarded in the internal grant competition of the University of Craiova.

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THE STATUS OF ROMANIA HIGHER EDUCATION AND THE COUNTRY VISION FOR 2020

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Abstract: *The aims of this research paper are to establish how Romania is progressing with its higher education goals and whether they are likely to be attained by 2020. The methodology used for this paper involved collecting data related to Romanian higher education management from the Eurostat database, as well as from other relevant sources. The goal of this paper will make predictions regarding the Romanian higher education based on the EU27 2020 benchmarks, and using data taken from the Eurostat database. The results of this study will provide information on how likely Romania is to achieve its higher education targets.*

Key words: Higher Education Institutions, management, graduate rate, early school dropouts, Romania

JEL classification: I2

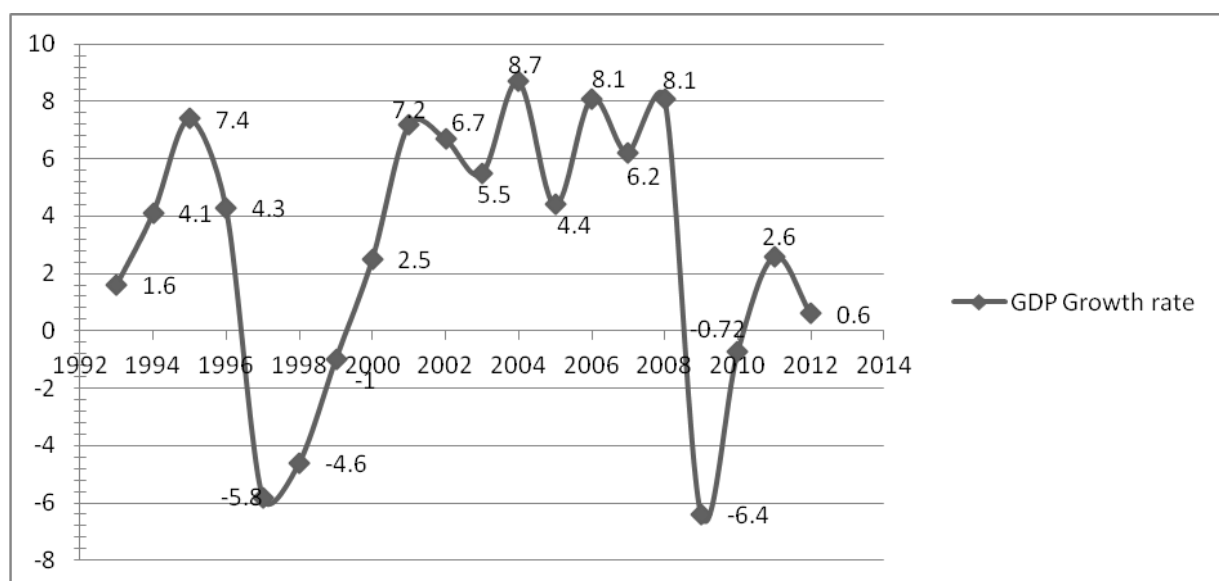
1. Introduction

Higher education institutions (HEIs) play a vital role in producing individuals with advance levels of knowledge and skill, those able to enter the government, business and other professional sectors ([7], p. 1). In fact, a positive link has been shown to exist between a population's overall education level and economic growth ([5], p. 8). There is also evidence that among higher education degree holders aged 30 to 34 years of age, lower unemployment rates exist ([3], p. 12, [11], p. 1). Due to this, governments around the world, and in particular those in European countries, have been striving to educate their populations to higher and higher levels. For instance, the 27 governments in the European Union (the 'EU27') have set a target to achieve a graduation rate of 40 percent and reduce the proportion of those leaving school early to below 10 percent by the year 2020 ([4], p. 3). Romania became a member of the EU in 2007, and since then the country has also set a target to reach the EU27 higher education goals. With regard to the reduction in the number of early school leavers, Romania's aim is to achieve a final 11.3% reduction target by 2020, while in terms of increasing the share of the population aged 30 to 34 in tertiary education or equivalent, Romania aims to reach a final target of 26.7% by 2020 ([9], p. 9).

With regard to the country's economic status, Romania suffered an economic downturn in 2010, with GDP at -1.3 percent; however, the country's economy has since recovered, with GDP in 2011 being 1.5 percent and then growing to 4 percent in 2012 and 4.5 percent in 2013. It is predicted that GDP will reach 4.7 percent in 2014 ([9], pp. 14-15).

According to the IMF, the Romanian economy showed a positive overall growth rate over the period 1993 to 2008; however, it shrank by -5.8 percent, -4.6 percent and -6.4 percent in the years 1997, 1998 and 2009 respectively, due to the global economic crisis. In spite of these setbacks, the economic situation has since improved (see Figure 1).

Based on EU data, for 2012 there was economic growth in Romania of 4.2 percent on average ([12], p. 41), and it is now thought that the education sector in general, and in particular higher education, will be of particular benefit as enrolment rates increase and the school leaving age rises towards the government's benchmark.

Figure 1: Romanian GDP growth rates (%): 1993 to 2012

Source: [10]

Using the previous literature and existing data, this research study will explore how far Romania HEIs are committed to achieve the government's target of raising the number of graduates in the age group 30 to 34 years of age, a target set by the EU27 group. The study will also review the share of those leaving school between the ages of 18 and 24, as this might also affect the graduation rate. Existing data will be also used to create projections through the use of regression analysis; to try and explore future trends. Moreover, to support the projections made, policy and strategy interventions in Romania and will take as case to compare some of the European countries such as Netherland, Italy, Slovenia and Spain.

2. Results and Discussion

The education systems used in Europe vary from country to country, though the EU defines those leaving school early as being those between the ages of 18 and 24 who have acquired only a lower secondary education at best, and have received no further education or training ([6], p. 8). With regard to higher educational attainment, this is measured by the proportion of those aged 30 to 34 years who have successfully completed university or tertiary education ([7], p. 29).

2.1 School Leaving Age

Among the EU 27 countries, as elsewhere, the percentage of those leaving school early varies from country to country. In Spain, it was about 29.1 percent in 2000 and had only declined very slowly over the next ten years to 28.4 percent by 2010, then continued to decrease down to 24.9 percent by 2012. This result shows that Spain will find it hard to reach the EU27 target for 2020, because it has displayed such a slow improvement; of only 1 percent per annum between 2000 and 2010. In the thirteen years from 2000 to 2012, the average annual reduction in the rate of those leaving school early was only a little over 0.3 percent.

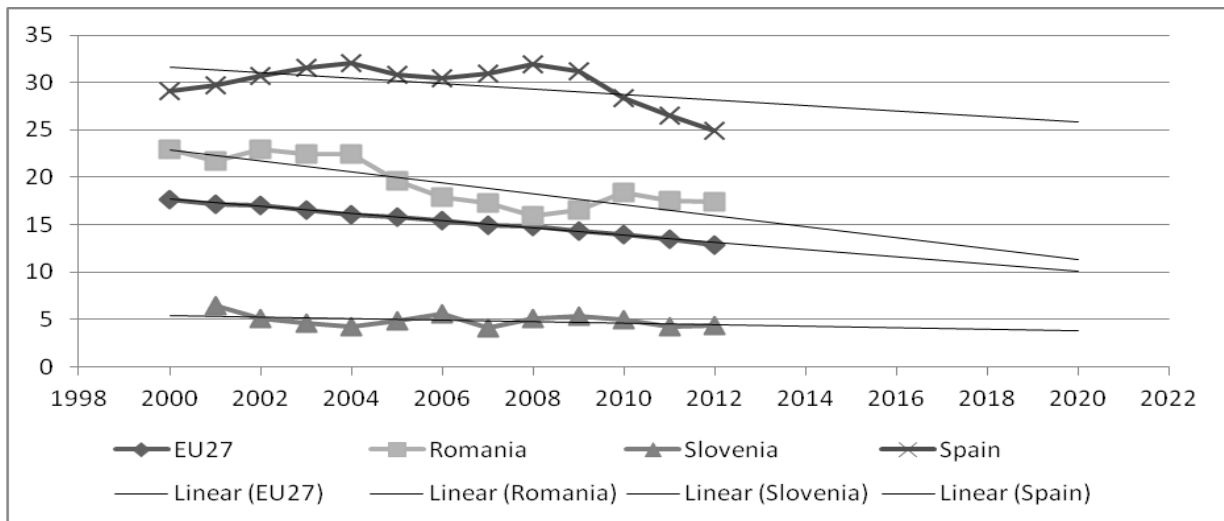
Based on a regression analysis-based prediction, the rate of those leaving school early in Spain will only have declined to slightly above 25% by the year 2020 (see Figure 1). However, based on the sharp decrease that took place between 2010 and 2012, the rate might fall below 20 percent by 2020.

When looking at the regression line for all 27 EU countries, it seems it will be possible to reach the target of below 10 percent, because by 2012 the proportion of those leaving school early had already dropped to 12.8 percent. According to Eurostat series data, the average annual EU27 reduction in those leaving school early is about 0.4 percent, meaning the EU27 countries will reach the 2020 benchmark of at or below 10 percent (see Figure 2).

With regard to Romania, since 2000 HEIs have made a significant contribution to a reduction in the early school leaving rate; for example, from 2000 to 2012, the average annual decrease in this rate was about 0.5 percent. According to our regression analysis, in 2020 the early school leaving rate in Romania will have achieved the nation's target of 11.3 percent ([9], p.9). However, if Romanian HEIs have a greater input, the EU27 target of 10 percent may be achievable (see Figure 2). Figure 2 also shows that although

Spain is among the strongest EU countries in terms of its social, economic and political status, its early school dropout rate is still high when compared to Romania.

Figure 2: Percentage of Early School Dropouts (ages 18-24)

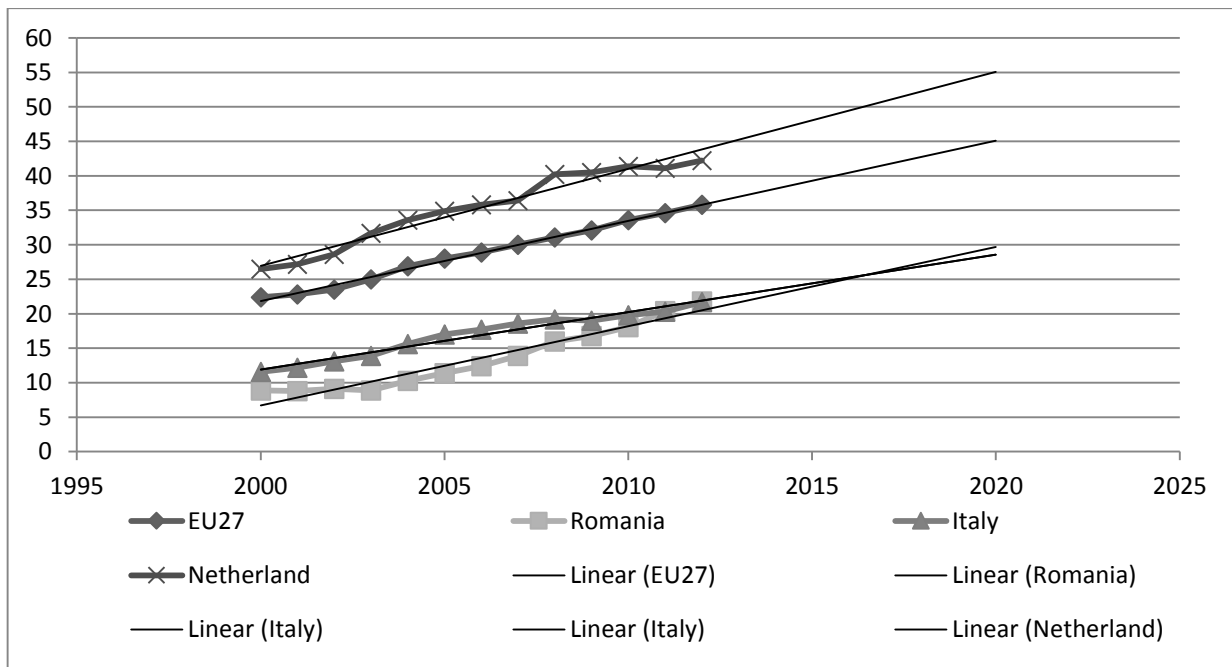


Source: [1]

Some EU member states have already achieved or exceeded the target for 2020; for example, Slovenia has exceeded the target and has the lowest rate among all the EU27 countries (see Figure 2). In fact, in total, nine countries have already met or exceeded the 2020 target ([1]).

2.2 Graduation Rates

Figure 3: Higher Education Graduation Rate aged 30-34



Source: [1]

Figure 3 shows that graduation rates in the EU27 countries are expected to exceed the target of 40 percent by 2020, based on the constant increase seen since 2000. In 2012, the EU27 graduation rate was 35.8 percent. The graduation rate varies from country to country however; therefore, the overall performance of the EU27 countries masks to some extent the country by country situation. For instance, among the EU27 member countries, some have already met or exceeded the target ([1]). In Netherland for example, the graduation rate in 2009 (40.5 percent) had already exceeded the EU27 target of 40 percent.

According to our regression analysis, graduation rates in Netherland could reach close to 56 percent by 2020 (Figure 3).

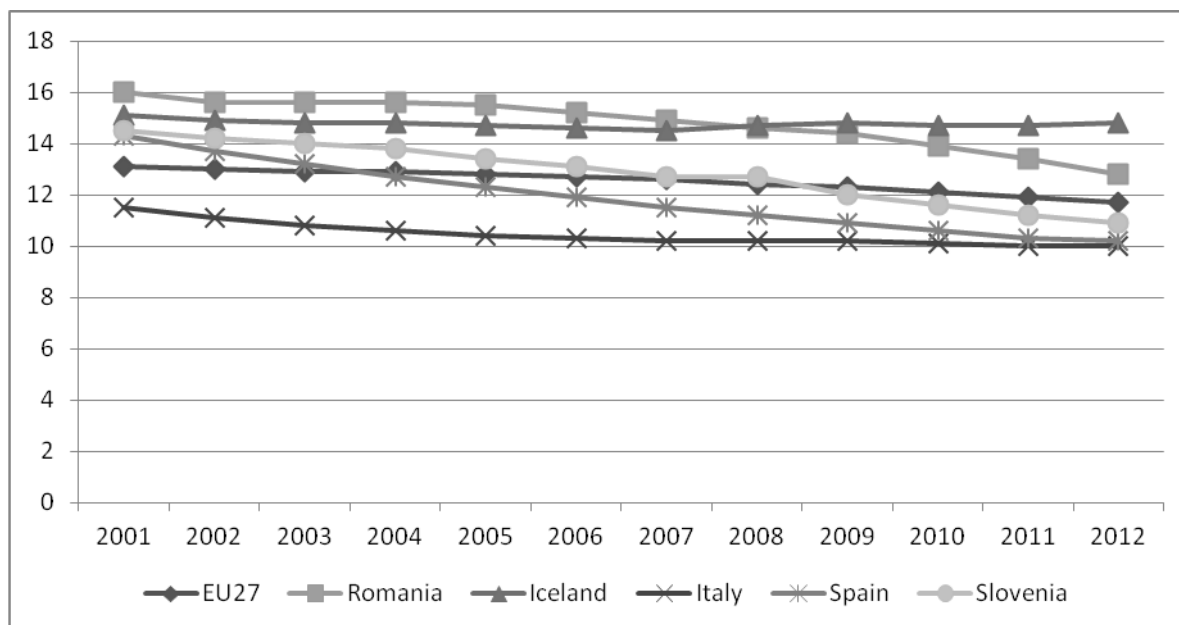
Concerning the graduation rates in Italy, it will have to make a huge effort in order to achieve the 40 percent target, due to the slow rate of growth there. Figure 2 shows that by the year 2020, the graduation rate in Italy will be slightly below 30 percent, meaning that the Italian government will have to place more emphasis on this issue; otherwise the EU27 target will not be achieved.

With regard to Romania, in 2000 the graduation rate was below that of Italy; however, the rate of growth was higher than it was in Italy, so according to our regression analysis, the Romanian graduation rate is likely to be close to 30 percent by 2020, and will have exceeded the country's own target of 26.7 percent by that time ([9], p.9). In fact, there are a number of ways in which the proportion of graduates in Romania could reach the country's target. First, the Romanian government could continue its reforms of the higher education system, to ensure the higher quality education is provided, as set out in the National Education Law 1/2011 [13], which states that all academic members have to hold a Ph.D. degree (article 294, p. 63). The Romanian government has also invested a lot in higher education, and in 2007 spent about 1.12 percent of GDP on tertiary education as compared to 2.41 percent in Denmark (the highest) and only 0.78 percent in Slovakia (the lowest) ([3], p. 24). The government has also introduced national higher education reforms, which are focused on giving autonomy to HEIs in terms of being able to establish their own policies on academic staff (including recruitment, evaluation and promotion) ([2], p. 22).

According to demographic trends across the EU27 member states, it should be taken into account, due to the fact that in the future this might have an impact on the proportion of people graduating, as well as the number of people leaving school early.

In general, the European countries are experiencing low population growth. Figure 3 shows the proportion of the European countries' populations and five others that is aged 15 to 24, revealing that this age group has declined as a percentage of the total population for nearly all countries over recent years. As for Romania, the population growth rate for this same age group has also been in decline, with the percentage of the population represented by this group decreasing from 16 percent in 2001 to 12.8 percent in 2012. These demographic trends may have an impact on future graduation rates (see Figure 4).

Figure 4: Proportion of total populations aged 15 to 24 years (%)



Source: [8]

3. Conclusion

Higher education plays a very crucial role in the social and educational development of most countries, and it has been shown that the better educated a country's population is, the lower the unemployment rate tends to be ([11], p. 1). In light of this, the EU27 countries have set a 2020 graduation target for those in the age group 30 to 34 years. Generally, information on the proportion of the population graduating among EU27 member states suggests this target will be achieved by 2020; however, this overall success story masks large differences across member states. For instance, some of the EU27 member states

have already met or exceeded the target; others are expected to reach the target by the deadline, while others may not reach it until after 2020.

In fact, whether or not a country achieves the graduation target does not significantly depend on the economic conditions prevailing there. For instance, Italy is better-off than Romania in terms of its economy, yet the share of its population graduating is lower than in Romania. Moreover, based on our regression analysis up to the year 2020, the Romanian graduation rate is likely to be higher than Italy's by that time. In terms of the number of people leaving school early, though Spain is stronger than Romania socially, economically and politically, it has so far been unable to achieve the EU27's reduced school leavers' rate. This shows that although there may be economic difficulties in Romania, the government is committed to following a clear educational strategy and management, one which will play a key role in helping to improve the higher education institutions found in the country.

4. Acknowledgements

I would like to express my gratitude to the Erasmus Mundus Mobility from Asia (EMMA) consortium, which gave me the opportunity to pursue my Ph.D. studies at Lucian Blaga University of Sibiu in Romania.

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MANAGEMENT OF INNOVATIONS IN THE INDUSTRY: RUSSIAN PRACTICE

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Abstract: *There are a lot of researches devoted to the problems of innovation in the industry. Questions of management of innovations in the industry are especially actual for Russia. There are many theories and experience, but universal approaches to management of innovations aren't present. In this article the analysis of innovation activity is carried out to the industries of the Russian regions.*

Key words: innovation management, industry, Russia

JEL classification: O32

1. Introduction

There are a lot of works of Russian and foreign scientists devoted to the problems of management of innovations in the industry. Most of them consider the resolution of these issues through the prism of public participation, governance and regulation of industrial enterprises, industries, complexes, clusters, etc. Scientific substantiation of the essence and structure of innovation processes was first performed by Y.Schumpeter based on the theory of long waves N.D. Kondratiev. Schumpeter introduced the concept of "innovation" in the economic theory and highlighted the following components: research, development, design, production, marketing, sales, service (Schumpeter, 2008). This linear model of the innovation process was substantiated in Russia, except for non-market consumption patterns. In general, the linear model can be represented by the following scheme: basic research - applied research - engineering design - mass production - marketing, promotion, where the only source of innovation is research. In this case, the linear model is completely derived from the theory of 'push' technology as the root causes, a source of innovation, which was developed in the works of Mensch (Mensch G., Continho C., Kaasch K., 1981), who distinguished two main aspects: technology push is the basis of innovative changes and depression acts as a 'trigger' of innovative activity. Literature review of the problem being investigated allowed to diagnose the variety in the field of innovation development in relation to specific sectors of the economic complex of the region that are private and treat specific problems inherent in, for example, agriculture, food industry, etc.

2. Literature Review And Hypotheses

Building an effective system of management of innovative industrial complex development is one of the most important tasks of the modern stage of socio-economic development. System interaction of spatially localized production systems, forming a single economic space, makes the most efficient to realize the benefits of the territorial division of labor. This increases the value of innovative processes to improve the stability and balance of the dynamics of regional proportions of the reproductive process. Literature review on the research problem has revealed a number of different methodological approaches and conceptual views on the role of government indicative planning and management to ensure the development of innovative industrial complex. So, Mozhayskova I.V. introduces the concept of the economic mechanism of innovative development, which includes a system of state regulation of territorial development, organizational and economic forms of functioning and incentive system to industrial production of innovative products. In other words, the author examines the state regulation as part of a global economic mechanism of innovative development of regions.

3. Methodology

3.1. Research Goal

In this review, we are aimed to identify the main problems and determine the prospects for innovation in industry of Russian regions. For this innovative development of the industrial complex in 14 subjects of the Russian Federation was analysed.

3.2. Sample and Data Collection

Innovative development of enterprises within the industrial complex effectively developing the regional economic system assumes the following:

- Geographically isolated in the spatial aspect of economic subsystems of the region should have similar total potentials, i.e. the gap between the absolute values of system performance "strong" and "weak" innovative industry profiles should be negligible. It gives possibility to obtain a certain synergies from their intra interaction sufficient to go to some qualitatively new and higher level of innovative development;
- Each territorial - economic subsystem region should perform their functions in a single innovation policy, the list of which depends on the specific structure of innovation demand and resource innovation indicators specific territory.

To achieve the objectives of the study, a system of indicators to evaluate innovative development of the industrial complex as a set of territorial and economic subsystems, which are presented in Table 1.

Table 1: System of indicators for assessing the innovative development of the industrial complex

System component indicative of innovative development	Estimates direction	Key indicators	
Diagnosis of innovative development of the industrial complex (state)	production	Index of industrial production,%	
		growth index value of fixed assets	
		productivity, thous. / pers.	
		Win industrial complex in the formation of value added,%	
		depreciation of fixed assets,%	
		Share of industry in the structure input of fixed assets,%	
		Specific weight fully depreciated fixed assets in industry,% of their total cost	
		The volume of innovative products, services, mln.	
	Innovations	Industrial output, mln.	
		The share of innovative products in total sales,%	
		Specific weight of organizations implementing technological innovation in industrial production	
		the number of applications for patents	
		Number of patents granted	
		Quantity of advanced production technology, ed.	
	Economy	Quantity used advanced production technology, unit.	
		Amount of expenditure on technological innovation, mln. rub	
		Return on assets in the manufacturing industry,%	
		Payables organizations without SMEs, mln.	
	Spatial distribution and strategic positioning of the industrial complex	Strategic positioning	Specific weight loss-making companies in the industry (as a percentage of the total number of organizations)
			net financial result in the industry, mln. rub
"Innovative Activity - Results of innovation"; "The number of advanced manufacturing technologies used - Index of physical volume of production", "Expenditure on technological innovation - The number of advanced production technology," "The volume of innovative products - costs per ruble of commodity production"			

	Program of cooperation in innovation	Number of cooperation programs; number of joint projects; amount of funding; expected Results
	Access to international markets	Number of businesses represented in international markets; capitalization companies in industrial complex; involvement of international financial resources to the implementation of innovative projects
Using and improving innovative capacity	Innovative human resources development	The number of personnel involved in research and development people.
		Number of doctors and candidates of sciences
		Number of organizations conducting postgraduate training, units.
	Resource potential	Gross domestic expenditure on research and development, mln. rub
		Material consumption of innovation (cost technolog. Innovation / Quantity created advanced productions technologies)
		Investments in fixed assets, mln. rub

The essence of the chosen method is that the industrial complex (possible by sectors or enterprises) calculated the average multivariate:

$$Y_{jk} = (\sum X_{ij} / X_{i\text{средн.}}) / N_i \quad (1)$$

Where Y_{jk} – multidimensional average value for K -th j -th unit industrial complex administrative-territorial unit ($J = 1, 2, 3, \dots, m$);

X_{ij} – value of the i -th index in the j -th industrial complex administrative-territorial unit in the block,

$X_{i\text{average.}}$ – the average value of the i -th index in the j -th industrial complex administrative-territorial unit in the block,

N_i – number of indicators in each block.

Implementing multidimensional approach to assessing the level of innovation of the industrial complex, it is possible to reconcile the different faces reduced to a single base value of various sectoral indicators in dynamics, minimizing the likelihood of miscalculation, as the number of indicators being considered.

Integral indicator of the level of innovative development of the industrial complex is determined by adding the multidimensional medium. Accordingly, the higher the value of the integral index, the higher the level of innovation of the industrial complex. On the basis of these figures represented an integral assessment and identified 14 rating innovative development of the Russian Federation.

4. Analyses and Results

Multifactorial system diagnostics of a condition and indicative management of innovative development of industrial complex was carried out on the example of 14 subjects of the Russian Federation, which accounted for more than half of Russia's industrial output. The highest level of innovative development of the industrial complex is observed in the regions of Russia such as Moscow, St. Petersburg, Moscow region, namely in their most concentrated high resource potential, including innovative human resources development industry. Providing innovative development of the industrial complex possibly due to the intensification of innovation territorial-economic subsystems of Russian industrial complex. Provisions exist for this. As follows from the rating results of territorial-economic subsystems Russian industry, dominates in all strategic areas only those which have an average rating, as shown in table 2.

Table 2: Results of testing the proposed methodology

The name of a subject of the Russian Federation	Diagnostics of innovative development of the industrial complex (state)			Using and improving innovative capacity		Integral assessment of indicators
	Producti on	innovat ions	Economi cs	Human resorces of innovative development	Resource potential	
Moscow region	6,93	9,57	0,44	4,87	4,28	26,10
Moscow	8,63	23,59	-2,78	21,03	8,74	59,22
St. Petersburg	7,87	10,92	1,72	6,36	3,61	30,48
Republic of Bashkortostan	5,57	4,23	2,19	0,85	0,17	13,00

<i>The name of a subject of the Russian Federation</i>	<i>Diagnostics of innovative development of the industrial complex (state)</i>			<i>Using and improving innovative capacity</i>		<i>Integral assessment of indicators</i>
	<i>Production</i>	<i>innovations</i>	<i>Economics</i>	<i>Human resources of innovative development</i>	<i>Resource potential</i>	
The Republic of Tatarstan	8,42	7,14	2,23	1,19	-0,09	18,89
Perm region	6,50	4,65	3,18	0,55	1,01	15,89
Nizhny Novgorod region	6,12	8,06	2,53	1,85	2,09	20,65
Samara region	6,69	7,23	2,36	0,92	1,38	18,57
Sverdlovsk region	6,04	6,84	1,45	1,64	2,15	18,12
Tyumen region	10,49	3,47	7,13	0,67	1,47	23,23
Chelyabinsk region	5,75	5,15	0,89	0,77	1,15	13,72
Krasnoyarsk Territory	6,67	2,96	3,78	0,56	1,58	15,55
Kemerovo region	5,96	1,56	1,72	0,27	1,46	10,97
Omsk region	6,34	2,63	1,16	0,47	0,23	10,84

Resource potential was estimated based on three key indicators:

- domestic expenditure on research and development, mln.rub.;
- consumption of materials of innovation activity (expenditure on technological innovation / number of created production technology);
- investment in fixed assets, mln.rub.

Thus, the key element of the management system of innovative enterprise development industrial complex at the meso level should become multifactorial diagnostics with integral indicator, followed by assigning ranks depending on the level of innovation development. Diagnostics of innovative development of the industrial complex will allow promptly allocate territories in which there is observed a negative development dynamics. Results of the analysis should be considered when developing a strategy of innovative development of the industrial complex enterprises by industry and cross-industry clusters. Strategic positioning of regional industrial systems on the integral value of the indicator of innovation development are presented in the appendices.

Regions shown in Table 2, it can in turn be grouped into three groups:

- regions with the level of innovation development of the industrial complex above average, high potential of intensive growth (Moscow region., Moscow, St. Petersburg, Krasnoyarsk region, Omsk region., the Republic of Bashkortostan and Tatarstan);
- regions with an average level of innovation development and sufficient significant growth potential (Perm region, Sverdlovsk region., Chelyabinsk region., Nizhny Novgorod region);
- regions with the necessary growth potential, level of innovation development is below average (Samara region., Kemerovo region., Tyumen region).

5. Conclusion

Formation of the indicative system of innovative development companies of industrial complex proposes to fix within the framework of formal and informal links the concept of "indicative system management of innovative development". Which is understood as a multi-level adaptive control system, including institutions of prediction innovation activity, strategic positioning, organizational and economic forms of stimulating innovation, efficient allocation of resources, investment and innovation monitoring, ensuring the development of innovative capacity of industrial enterprises, taking into account the structure of innovation demand in the region.

The Russian economy is characterized by relatively high rates of economic growth over 2000-2007, Now found itself in a crisis situation. In this regard, many companies are forced to revise their investment plans for development projects of innovation and expansion. Organizational and economic factors have an influence on financial and investment activities of economic entities adversely, namely the presence of sectoral imbalances in the structure and scale of investing, preservation of adverse state of basic assets, which is practically not improved in recent years and seriously hampers the production of competitive products. The decision of mentioned problems requires a special approach to the management of innovative enterprise development of industrial production, it is assumed, along with taking into account the characteristics of the structure generated by the national innovation system, and scaling up of innovative activity in the region. However, this is only possible in the case of stimulating innovation demand in the

regions, including through the mechanism of state and municipal contracts, and in the implementation of government programs and investment projects.

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INTERESTING, EFFICIENT, INVALUABLE WHEN TACKLING BUSINESS ENGLISH

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Abstract: *Overwhelmingly, international communication is connected with the English language which brings business opportunities in a more and more competitive world. Within this context there is a demand for business English which appears to be growing because learners are becoming clearer about what they want to use English for. Business English becomes important because you can differentiate yourself in the employment market, you can progress faster and further professionally, and therefore you study English for work, for living abroad, for travelling, for accessing knowledge and information, for entertainment. In today's global economy, learners want not only the skills to read, write, listen to and speak English fluently but they also want to be able to communicate in a way which will be recognized and appreciated by their partners within the international field.*

Key words: opportunity, business, communication, message, competition

JEL Classification: Z11

The English language has moved from a marketer of elite to a basic skill needed for the entire workforce and it has become the working language or the bridge language of our time; it has become a demand in what we call the passport of competences as it is more and more asked on the labour market anywhere in the world. To speak English means a serious opportunity regarding the improvement of communication skills in this way enlarging the way we may find new places for work and higher income. A language of intercultural connections it brings a positive attitude for all those who believe in progress and development. It is the language of choice when we speak of business. Those who speak it have a competitive advantage over their business rivals. Also those who are looking for better job opportunities turn to Business English courses to increase their chances in today's tough job market. And students too find themselves motivated as they may find better possibilities for careers.

Within this context business English always interesting and efficient is offering a practical means to learn the labyrinth of a vivid and well known language and explains in detail the way we can communicate more efficient and more concise. Business English is exactly as any other form of English except the fact that it refers to the English language as it is used within the business environment. This includes the way the language is spoken at the place of work, in offices, companies, using different techniques. Jobs in management and administration ask for a deep knowledge of the product representative for the company or the service but also written and verbal communication skills. In business both verbal and written communication skills are important to successfully carry out tasks. Ideas are being transmitted all the time and instructions too, internally and externally, reports, agreements with clients, buyers have become vital within a good management.

When most people think of successful businesspeople, they think of those who can make sales and sign accounts, have good finance skills and attention to skills and abilities. However, some of the most important skills that a businessperson can have are the communication skills. By communicating effectively, businesspeople can connect better with potential clients or customers. They can also lead teams, train workers and contribute to board meetings and other discussions.

Business English provides with more confidence when conducting business in English, with fluency in face to face business situations, with more professional approach and interaction with clients. Business English is connected with the abstract world, one of ideas and fine thoughts accessible to the experts. Therefore, we consider that there are some principles to take into consideration when we communicate in business English:

Clarity and concision; communication must be carefully worked out and very clearly expressed. The message must be short and precise. Whether writing or speaking, a businessperson with good communication skills knows how to get his point across quite clearly and concisely. He can explain all elements regarding his idea and use examples, analogies and evidence to help others completely understand the idea as well as make a good judgment on whether it is valid or not. Business operations must be done quickly, so good business communicators need to be able to write an e-mail that gets a complex idea or request across quickly or to explain a concern to their managers clearly without a lot of beating around the bush.

1. Ability to Choose the Right Channel

Good business communicators need to know how to do more than speak and write clearly. In addition, they must also know how to choose the right communication method: phone calls, face-to-face meetings, text messages, emails and letters are all different communication channels for businesspeople. If choosing the wrong one there can entail unnecessary confusion. A wrong choice can also mean wasted time and money, especially if something that could have been taken care of via text is being addressed face to face. Good communicators know the benefits and costs of each type of channel and how to choose among them for each audience.

2. Flexibility

I think that different audiences, situations and purposes may change how business people communicate. The way that a businesswoman lets his boss know that there is a problem is likely much different than the way he tells his clients about the same issue. Effective business communicators must know how to analyze their audiences so that they know how they should disseminate information for each one. In addition, they also need to be able to communicate in a variety of different situations — to give good news the excitement it deserves and reassure customers when bad things may happen. Skilled communicators know their audiences and communicate effectively; they also understand the types of communication barriers that may exist and how to break through them.

3. Ability to Listen

Giving out information is only one half of communication, though it is the half that people tend to think about the most. The other half, perhaps the less glamorous half is taking in information namely, listening. However, skilled business communicators not only have the ability to give out information; they also have the ability to listen as well. Good communicators can listen to what others are saying, whether one-on-one or in a group setting, and understand the main message. In fact, good communicators ensure that the people with whom they are communicating got the correct message by checking that message with the speaker or writer. Businesspeople who can listen well can make accurate reports to management and respond most effectively to others' concerns because good listeners better understand what those concerns really are and what will put them at ease.

An efficient communication in English make us follow some simple rules that can be learnt and practiced by anyone. We just need to keep in mind the aim of communication:

A good business communication means:

1. Clarifying the ideas before communicating: systematically through a message and taking into consideration who will be at its receive and/or affected by it.
2. Examining the real aim of the communication, using a language that can be adjusted as such.
3. Taking into consideration the entire physical and human environment; questions are very important and the skill is but the way in which you say it. We must adapt the language for the environment.
4. Being attentive to connotations and the basic content of the message; the listener will be affected by the way in which they are within the message. The tone and facial expressions are to be taken into consideration too.
5. Using a clear language: it is important to choose clear and concise words. In other words, to use minimum words in order to send the message and to transmit useful information.
6. Follow-up on communication: a feedback- must guarantee that the receiver asked understood the message.
7. Be a good listener: by focusing on the answer of the receiver we can ensure the degree of interest.
8. It is good to avoid:
 - using long words,
 - using new words,
 - slang,
 - preconceived ideas,
 - overloaded information,
 - noise,
 - filter information,
 - lack of trust.

Business English becomes more interesting and demanding at courses and the efficiency is connected to the participation in them as they are necessary for the business environment where the knowledge of a foreign language becomes vital.

Being structured around the objectives established the courses/lectures for business English aim at developing the skills in some directions for a good communication in business. We refer to meetings, discussions, negotiations

- presentation of information, charts,
- communication by phone,
- correspondence,
- socializing.

As such Business English is efficient if we use some methods in learning it or exercising it. Among them I stopped to only two of them that I considered very important: the translation and the communication method.

1. The translation method is a communicative activity within a meaningful context. It has become a problem solving process. We have become more and more aware that the multi-lingual world of the next century will depend crucially upon the accurate translation of a wide range of documents, including scientific and technical documents. The efficient translation of science and technology texts offers substantial opportunities for the vendors of software systems that can take on this major intellectual challenge. This challenge is essentially to our ability to understand and articulate how knowledge is disseminated through the medium of text across linguistic and cultural divides.

Now globalization has entailed a rise in the demand for the services of the language translations by business organizations. This has resulted in an increase concerning the number of language translators and interpreters. Companies ask for linguistic services like: document translations, software localization, website translation and therefore an efficient translation service is essential. It provides a better understanding for products and services, when communicating with partners abroad, with customers, client database, advertising, brand images, in financial markets with attention to financial statements, mutual funds reports. Language translation services are being used to help learners enroll into new training programs that give them the opportunity use the abilities at work. In business life we are interested in communicative translation that renders the exact contextual meaning of the original in such a way that both language and content are acceptable quickly to the reader. We have a certain type of vocabulary to learn. Terms are used sometimes exclusively in that respective discipline. The method is very much based on the written word and texts are widely in evidence. A typical approach would be to present the rules of a particular item of grammar, illustrate its use by including the item several times in a text, and practice using the item through writing sentences and translating it into the mother tongue. The text is often accompanied by a vocabulary consisting of new lexical items used in the text together with the mother tongue translation.

Documentation and translation of specialist knowledge documents are complex tasks, where feats of cognitive and perceptual processing are being performed. Specialist documentation, including learned journals and technical manuals, involves mapping of percepts onto concepts and vice versa, involves the description of the new ideas in a cohesive whole that maintains continuity with the old ideas, involves the use of the lexical inventory of the language of the document. Once the idea is established and is used either as a policy instrument or used in the production and sales of goods and services, then there are additional texts that become a part of the textual archive of the specialist domain where the idea was generated. These texts include texts used to advertise goods and services, texts used for governing, sales and uses of the goods and services... Translation of specialist documentation involves not only an understanding of the grammatical structure and the lexical inventory of the source and the target languages, but involves an understanding of how text is created and will be used, involves how to communicate ideas that may be foreign to the culture of the reader. Translation is, it appears, a complex cognitive process involving the simultaneous and integrated execution of linguistic-, iconic- and symbolic-representation tasks, and translation involves the deployment of episodic and semantic memory.

There are some tips to take into consideration for a successful translation. We have both the oral and the written one.

Oral Translation Tips: Interpreting – we have simultaneous, consecutive and whispering – and we consider to be the most difficult type of translation. To get good results in this domain, an interpreter is expected to (a) have a high level of competence in different areas, (b) understand and critically analyze the translated information, (c) know how to highlight the key elements in the text, (d) constantly enrich their professional vocabulary. The personal features of an interpreter - such as a quick reaction, clear articulation, and bright mind - are also of great importance.

The most essential interpretation tips are as follows:

- in advance familiarize yourself with the topic of the speech (papers in conferences),
- note down main points of the speech – they will help you when interpreting,
- translate and clarify the meaning of special terms and key words prior to interpreting,
- establish friendly relations between you and the speaker at a consecutive translation,
- try to pronounce words distinctly and clearly,
- make a brief summary at the end of the speech - it helps to clarify conclusions,
- enjoy what you are doing .this may be your chance,
- give a clear message to the target audience.

Written Translation Tips: Written translation is completely different from any other type of translation. As a rule, there is no need to react instantly - you can take your time, think, choose a better variant, use a dictionary, consult a specialist. Like any other translation it should convey the meaning and the music of the source language. Also, you need to be very accurate with the language and give proper weigh to stylistic features. In business it must be very accurate.

The most important translation tips for business translations are as follows:

- translate words not meaning,
- rely on your knowledge in the domain,
- ask a specialist if you have doubts.
- do not accept a project which you know is not within your abilities
- skills and translation expertise come with time – do not worry
- language nuances do matter when making a professional translation
- a good translation is worth taking time for!
- the way documents are organized in one country may not be understood in another

2. The communicative method. The aim is fluency in different situations. We lay stress on real communication as people use a language to do things like agree, criticize, invite, predict, request, suggest... Here the teacher is the facilitator with a twofold task: helping learners to communicate in English and struggle to motivate them to work with the language. The teacher speaks regardless the level studied. It stimulates curiosity, creativity. It comprises a large area (the search for information), the stress is on fluency. It is based on discussions, debates, role play. There are presentations of information, correspondence, meetings, socializing. There are presentations of case study for companies, conversation situations for planning a touristic route. Explanation and demonstration take the place of translation. Questions are being asked and there is an active participation that aims at: the ability to narrate, to understand texts, to express clearly and spontaneously, to face any type of conversation; during the presentation stage the teacher presents the new vocabulary by a text. The language items are introduced in real life contexts. Then the next stage is that of questions to check the meaning conveyed. Then the language is practiced by using the new vocabulary in dialogues and exercises and finally tests. An example would be that of learners who use vocabulary for talking about company and job. Learners study expressions for describing a company's history, location, size, market position, financial results and strategy. They learn how to talk about their job responsibilities and what they like/dislike about their work. Learners study how to avoid causing offence by expressing themselves in a more tactful, diplomatic way. After studying a variety of adjectives for describing different attitudes, the students learn how to use special structures through reading, language practice and role play.

An approach used in communication is guided discovery where new materials are introduced to involve the students in a creative way with the following steps: introduction where learners and the teacher work to generate excitement about the material, generating ideas where the learners list uses for the material, learners explore the material and they may ask questions, learners discuss by pointing out aspects of interest and last the learners put in practice if possible.

In business life role playing is also important as a method of communication. It involves playing the role of shop assistant, customer... where they need to do use English.

Role play can be an effective way to provide practice for the participants on a business English course. The participants may well be familiar with this approach from the business training courses they have completed. It involves the participants in taking on a role in the same way that an actor might take on a role on the stage.

We consider that there are at least four reasons why we should include role play in all of our business English courses.

1. The change of activity is always welcomed by participants and will help to keep our sessions lively and interesting, as well as keeping the participants alert and active.
2. Role play gives the participants the opportunity to practice the new language that they have been working on in the course.
3. It helps to make them aware of gaps in their knowledge and the language that they need to practice and learn.
4. Role play can help to assess the progress of our participants; as they are fully involved in their activity we can observe their actions and also keep a check on their language. We can address some of the points arising from our observations in the feedback session after the role play.

Working professionals must communicate accurately and effectively in English in various business contexts, therefore they have to:

- develop skills in critical reading and interpreting data in business case study readings,
- discuss solutions and suggest decisions in business situations; and
- write persuasively to convince business clients regarding complex problems and possible solutions in a business scenario.

Any course must emphasize reading, writing, discussion, presentation skills and draw particular attention to the following:

- exploring business vocabulary within the context: Case study analysis,
- critical reading strategies: Interpreting company data,
- decision making in international business settings,
- effective meeting and negotiation skills.

Case studies as learning activities, methods must be presented whether we lecture to students or professionals. They have advantages:

1. to develop critical thinking and reflective learning in the learner.
2. to improve the student's organizational skills - as case studies are sometimes very dense in information, the key is to condense this information into logical sections and organize them so that a clear picture of the problem/issue can be understood
3. to enhance communication skills - case studies can be used to improve the student's written and oral communication. Non-verbal communication skills are also practiced by using case studies
4. to train managerial communication skills such as holding a meeting, negotiating a contract, giving a presentation etc. Case studies force students into real-life situations to require them to get involved in managerial communication.
5. to encourage collaborative learning and team-working skills in the language learner.

In today's global economy, learners want not only the skills to read, write, listen to and speak English fluently, they also want to be able to communicate in a way which will be recognised and appreciated by their counterparts in the international arena. They want their English language learning to be targeted to this aim and they often also want their success in this to be measured using an internationally recognized benchmark - hence the rise in demand for business English examinations.

Business English is not only meant for students but for anyone who wishes to better communicate within this environment and be successful in doing better business

4. Conclusions

Within the business world the English language is the lingua franca and it allows communication among those who come from a variety of cultural environments. The reasons are linked to globalization within business as well as communication technologies. People work in English as employees and employers in companies and not only. They also need sound lexical, grammatical knowledge because business asks for better strategies. Being able to speak English means that we have a career advantage as international communication is crucial in almost all fields.

Therefore information is essential in a courageous world where specialists are increasingly attentive to solutions. We are clever enough to think about the future and this no doubt belongs to the English speakers. This is a way for a more competitive world where man lives intense and spherical.

Our challenge is to better prepare the business graduates with Business English communication skills which will enable them to successfully negotiate through a web of multicultural complexities. Our goal is to manage Business English education and the acquisition of Business English managerial competencies to reflect the cultural, racial, social and linguistic diversity present in both globalized trade

and in the world economy. The final product is well-educated business graduates who are not only able to communicate in English, but are well aware of the existing diversity and challenges which they will face in the future. In addition they need the advice of professionals who must also be well trained in business English.

My experience tells me that the study of grammar, lexicology, vocabulary can largely be done using case as an example of the text before or after discussion of the case. The same in translations.

I think that the most valuable skill that may be acquired from case studies are the abilities involved in dealing with the unknown. This is a crucial skill for a future manager, or any business graduate economist. The current era is punctuated by accelerating change, and the unknown is ubiquitous. In our own way I do hope our efforts continue to provide the bridges over which those who come after us will be travelling.

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THE FACTORS INFLUENCING ACADEMIC AFFAIRS SERVICES MANAGEMENT AT THE NATIONAL UNIVERSITY OF LAOS AND LUCIAN BLAGA UNIVERSITY OF SIBIU, ROMANIA FOUNDED BY EMMA ACTION2, 2011-2014

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Abstract: *The aims of this research are to examine the perceptions of the staff's and students' on the academic affairs services management, financial supports, educational policies, academic calendar, teaching, learning and grading management systems and academic affairs improvement at the faculty of Economics and Business Management in the National University of Laos, and the faculty of Economic Sciences in Lucian Blaga University of Sibiu, Romania. There were 220 participants. The five-point Likert scale rating questionnaires and the SPSS version 20 was used. The descriptive statistics, reliability statistics, correlation analysis were undertaken. The research goals are to improve the academic affairs services management system. Therefore, the results are expected to be reliable and useful for the universities, the governments, international donors and all educators.*

Key words: the Academic affairs services management, financial supports, educational policies

JEL classification: I2

1. Introduction

The academic affairs services management research was conducted in two universities mentioned above. This management does not only play very important roles in the educational institutions such as universities, colleges, schools and the other educational centres, but also be able to drive force economic growth and coordinate every organizational area to work effectively in the organizations, (Cole, G.A, 1993, p. 3-7); cited in Fayol, (1916), Brech, (1957), Koontz and O'Donnell, (1976, p. 3). The major factors of this research are related to the academic affairs services management systems which have been operating in two universities, the National university of Laos and Lucian Blaga University of Sibiu, Romania since 1995-1996 to the present time. Since then, this needs to be improved those academic affairs services management systems in order to response the market demands of the world education and the economic changes. The specific eight factors are related to the academic affairs services management, financial supports, the educational policies, calendar, teaching, learning, grading systems and the way how to improve those systems. Those factors are considered to be the academic importance of the universities. This is because those academic activities are concerned with the university leaders, academic staff and other subordinates in the organizations. This means that those people who are in charge of management being able to coordinate with each other from the top to bottom levels in the organization in such university (Harding & Long, 1998, p. 181 in Mintzberg and Quinn 1991). The other interesting information to notice is that those two universities were established in the same academic year 1995 (LUBS, 1998-2014, p. 1) and 1996 (NUOL, 2013, p. 1). Moreover, those two countries were used to be influenced by the former Soviet Union. Laos was influenced by the former Soviet Union from 1975-1990, (Martin Stuart-Fox, 1997, p. 198-201). Romania was influenced by the former Soviet Union from 1945-89, (Romanian History, (2000-2014, p.2), From this point of view, the academic affairs services management systems of those two universities were similar in terms of services experiences. Therefore, this research is expected to see the outcomes of the academic affairs services management in two universities which was proposed on the major factors influencing the management systems of two countries. Finally, this research compares the perceptions of staff and students within the two universities about the significant correlation statistics which are based on the collected data of this research. This is also to find out some possible solutions to solve academic affairs services management.

2. Literature review

This section reviews the management theories and related literatures which are linked to Lao and Romanian academic affairs services management systems. This focuses on the scientific management of Taylorism (Cole 2004, p. 17-18 cited in Frederick, 1856-1915), was a theory of management that analyzed and synthesized workflows in the organizations. This main objective was to improve economic efficiency and encourage the workers to work productively in applying for the market demands. It was one of the

earliest attempts to apply science to the engineering of processes and management. The top of influence came in the 1910s; by the 1920s, it was still influential but had begun an era of competition and syncretism with opposing or complementary ideas, (Mitcham, Carl, 2005, p. 1153 cited in Frederick Taylor, 1856-1915). Although scientific management is as a distinct theory or school; of thought was obsolete by the 1930s, most of its themes are still important parts of industrial engineering and management today. These include analysis; synthesis; logic; rationality, empiricism, work ethic, efficiency and elimination of waste. The standardization of the best practices to preserve the traditions is for its own sake or to protect the social status of particular workers' skills. It is also to transfer the knowledge from one worker to the others in order to match with the tools, processes, and documentation. The scientific management's application was contingent on a high level of managerial control over employee work practices. This necessitated a higher ratio of managerial workers to laborers than previous management methods. The great difficulty is accurately differentiating with any such intelligent, detail-oriented management from mere misguided management and also caused interpersonal friction between workers and managers. While the terms "scientific management" and "Taylorism" are often treated as synonymous, an alternative view considers Taylorism as the first form of scientific management which was followed by new iterations. Thus, in today's management theory which related to Taylorism's the classical perspective management. This means that a perspective is still respected for its seminal influence. It is no longer state-of-the-art. The term "scientific management" in 1910, Taylor recognized it as another good name for the concept and he used it himself in his 1911 monograph (Drury, 1915, p. 34 cited in Frederick Taylor 1856-1915, p. 230). The field of management related to the work of Taylor which was concerned with employees and managers. Taylorism became obsolete by the 1930s, and by the 1960s the term "scientific management" had fallen out of favor for describing current management theories. However, many aspects of scientific management have never stopped being part of later management efforts. There is no simple dividing line demarcating the time when management is as a modern profession (blending art, academic science, and applied science) diverged from Taylorism. Moreover, Olum, Y. (2004: p. 18) pointed out that managing is one of the most important human activities. From the time human beings began forming social organizations to accomplish aims and objectives which could not accomplish as individuals, managing has been essential to ensure the coordination of individual efforts. As society continuously relied on group effort, and as many organized groups have become large, the task of managers which has been increasing in importance and complexity. Furthermore, Richard, (2010, p. 48) cited in Henri Fayol (1841-1925), 's administrative theory mainly focuses on the personal duties of management at a much more granular level. His theory consisted of 5 principles and 14 fourteen principles of administration which are still actively practiced today. Douglas McGregor (1906-1964) postulated management ideas as contained in "Theory X" and "Theory Y" which is about using human behavior in an organization depends on the beliefs of its managers. There were six basic assumptions for 'Theory Y' Richard (2010, p. 51-53), cited in Douglas McGregor (1906-1964). Therefore, This research is based on the management theories mentioned above which play very important roles, not only from the top levels, but also for every section in the organizational areas without all coordination in the organization, it is impossible to work successfully, (Harding & Long, 1998, p. 181, cited in H. Mintzberg and J.B. Quinn, 1991).

3. Research objectives

The aims of this research are to determine what the major factors influence the academic affairs services management in two mentioned universities. To achieve the research goals, staff and students were questioned about their perceptions on the academic affairs services management, financial supports, educational policies, academic calendar, teaching, learning, grading management systems and the academic improvement which they have experienced in those universities. In addition, the researcher desires to explain the significant correlations amongst those factors including the following outcomes such as the descriptive variables statistics, a simple Pearson correlation coefficient statistics and independent t-test statistics. It is hoped that this research also contributes to a better understanding the nature of the academic affairs services management systems which meet the real situations and offer some suggestions to make the new effective academic management practices which are able to drive force the economic growth in those two universities to catch up with the changes of the world education and economics.

4. The research hypotheses

This research is expected to describe the following hypotheses:

Hypothesis₀₁. The major items of factor No: 1 which influenced on the Academic Affairs Services Management at the universities levels were two variables as follows: No: 6 and No: 7 (the error coefficient alpha below 0.05). Therefore, the other eight items mean scores do not differ significant statistically from one to the other (their alpha is above the 0.05 threshold).

Hypothesis₀₂. The major items of factor No: 2 which influenced on the financial supports at the university levels were six variables as follows: No: 2, No: 3, No: 6, No: 7, No: 8 and No: 9 which were perceived higher levels by Lao participants compared with Romanian.

Hypothesis₀₃. The major items of factor No: 3 which influenced on the educational policies at the university levels were two variables as follows: No: 1 and No: 8 which were perceived higher levels by Romanian participants compared with Lao. The other eight items were not very large differences.

Hypothesis₀₄. The major items of factor No: 4 which influenced on the academic calendar management at the university levels were six variables as follows: variable No: 2, No: 3 No: 5, No: 6, No: 8 and No: 9 which were perceived higher levels by Romanian participants compared with Lao.

Hypothesis₀₅. The major items of factor No: 5 which influenced on the teaching management at the university levels were only one variable as No: 3 which was perceived higher levels by Romanian participants compared with Lao.

Hypothesis₀₆. The major items of factor No: 6 which influenced on the learning management at the university levels were only one variable as No: 7 which was perceived higher levels by Romanian participants compared with Lao.

Hypothesis₀₇. The major items of factor No: 7 which influenced on the academic grading management systems at the university levels were all ten variables. It is a very interesting result to notice of this research is that all ten variables do differ (with a value of the error coefficient under or very close to the threshold of 0.05). All differences of the mean scores are negative, thus, Romanian participants have rated all variables higher levels than Lao.

Hypothesis₀₈. The major items of factor No: 8 which influenced on the academic affairs services management systems improvement at the universities levels were five variables as follows: No: 1, No: 2 with these two variables of differences were negative which were perceived higher levels by Romanian participants compared with Lao, on the other hand, Lao participants had higher perceptions on variables No: 6 No: 9 and No: 10 than Romanian.

5. The research methodology

To achieve the aims of this research, a quantitative paradigm was chosen as the most appropriate method to determine the staffs' and students' perceptions on the academic affairs services management, (Khawaja, 2012, p. 16, cited in Sekaran & Bougie, 2010, p. 169) and makes use of variety of quantitative analysis techniques that range from providing simple descriptive of the variables involved, to establish the statistical relationships among variables through complex statistical modelling (Raphael, 2010, p. 38, cited in Saunders et al., 2009, p. 199). It is also to describe, explain and predict phenomena, uses probability sampling and relies on larger sample sizes as compared to qualitative research designs (Cooper & Schindler, 2006, p. 39). In order to make a good flow of this research, the researcher has a clear purpose of the research, procedures are detailed in the form of research proposal, research design is thoroughly planned, research relies on adequate analysis, the findings are presented unambiguously, conclusions are properly justified, limitations, reliability and validity are frankly revealed and high ethical standards are applied (Cooper & Schindler, 2006, p. 47). There were 220, categorized into five groups, (1). Presidents / rectors, vice-presidents / rectors, (2). Deans, vice-deans, (3). Heads of departments, (4). Lectures / teachers, and (5) and the second and third year students. The questionnaires were distributed directly to Lao and Romanian participants from February 2012 to July 2013. The 5-point Likert scale rating format and multiple choice questionnaires were used to collect data in this research which consisted of 80 items. Those adapted questionnaires were designed to measure the staffs' and students' attitudes levels towards the effectiveness, accuracy and importance on the academic affairs services management systems. The factor descriptive statistics, correlation of factor, independent t-test, a simple Pearson correlation and the reliability and validity formulas were used to show the Frequency, Mean, Std, Variance, t-value, Significance, Mean Significance in this research. The test of reliability and validity Cronbach's alpha based on standardized items of questionnaires from part 2. Factor 1 to Factor 8 were from **.840 to .924**. Based on these statistics test results mean that the questionnaires were used in this research were reliable and acceptable.

6. The research results and data analysis

Hypothesis 1: Based on the independent t-test, the major items of factor No: 1 which influenced on the Academic Affairs Services Management at the universities levels were two variables as follows: No: 6 and No: 7 (the error coefficient alpha below 0.05). Specifically, the variable No: 6 (Sig = .058), Mean difference (0.2455) and No: 7 (Sig = .006), Mean difference (0.3455) which were perceived higher levels by Lao participants compared with Romanian. This can be interpreted as a higher control of the Lao Academic Affairs Committee Boards of the university monitor working performance in each university regularly compared with Romanian. A statistical significant mean difference can be found by the variable No 7. Thus, Lao Academic Affairs Committee Boards of the university had higher authority to work on the Academic Affairs Services management assessment than Romanian. The other eight mean scores do not differ significant statistically from one to the other (their alpha coefficient is above the 0.05 threshold), (See table No: 1, below).

Table 1: F1. The Academic Affairs Services Management at university levels

No: Variables	t-value	Significance	Mean difference
1	.835	.405	.1
2	.064	.949	.0091
3	-1.570	.118	-.2091
4	-.776	.439	-.1091
5	.936	.350	.1273
6	1.902	.058	.2455
7	2.768	.006	.3455
8	.720	.472	.1000
9	1.561	.12	.2182
10	-.504	.615	-0.0818

Hypothesis 2: Based on the independent t-test, the major items of factor No: 2 which influenced on the financial supports at the university levels were six variables as follows: No: 2 (Sig =.000), Mean difference (0.6182), No: 3 (Sig = .051), Mean difference (0.2545), No: 6 (Sig = .000), Mean difference (0.5000), No: 7 (Sig = .000), Mean difference (0.8636), No: 8 (Sig = .016) Mean difference (0.3727) and No: 9 (Sig = .036) Mean difference (0.2909) which were perceived higher levels by Lao participants compared with Romanian. Specifically, the first biggest difference (0.8636) is obtained by the variable No: 7, Lao participants had higher perceptions that the university got foreign financial supports to allocate for the Academic Affairs Services Management than Romanian. The second biggest difference (0.6182) is obtained by variable No: 2, Lao participants had higher perceptions that the government provided the national financial budgets to the educational areas every year more than Romanian. Finally, the statistical significant differences were obtained by variable No: 3, No: 6, No: 8 and No: 9, Lao participants had higher perceptions on the following issues than Romanian such as the educational financial budgets were allocated to universities, the universities were able to get financial supports from other faculties yearly, Lack of financial supports leading to the failure of the academic affairs services management of the universities, the universities were looking for funds from the other internal and external organizations to support academic affairs services management. (See table No: 2, below).

Table 2: F2. The Financial Supports at university levels

No: Variables	t-value	Significance	Mean difference
1	-.515	.607	-.0727
2	4.533	.000	.6182
3	1.960	.051	.2545
4	.686	.493	.0909
5	1.771	.078	.2455
6	3.613	.000	.5000
7	5.745	.000	.8636
8	2.428	.016	.3727
9	1.586	.036	.2909
10	2.113	.114	.2455

Hypothesis 3: Based on the independent t-test, the major items of factor No: 3 which influenced on the educational policies at the university levels were two variables as follows: No: 1 (Sig =.010), Mean

difference (-0.4182) and No: 8 (Sig = .056), Mean difference (-0.2909) which were perceived higher levels by Romanian participants compared with Lao. The other eight items were not very large differences. Specifically, Romanian participants had higher perceptions on the following variables than Lao which were related to the modern technologies and media communication among faculties' staff and students of university-wide were very important to make academic services management faster and the university's policy committee boards received the processes and evaluation of applications from prospective students for admissions criteria and application rates studies, (See table No: 3, below)

Table 3: F3. The Educational Policies at university levels

No: Variables	t-value	Significance	Mean difference
1	-2.588	.010	-.4182
2	.272	.786	.0364
3	-.652	.515	-.0909
4	-.689	.492	-.1091
5	.598	.550	.0818
6	-.257	.797	-.0364
7	-1.186	.237	-.0364
8	.447	.655	.0636
9	-.247	.056	-.2909
10	-1.925	.805	-.1636

Hypothesis 4: Based on the independent t-test, the major items of factor No: 4 which influenced on the academic calendar management at the university levels were six variables as the follows: variable No: 6 (Sig = .000), Mean difference (-0.9364), No: 5 (Sig = .001), Mean difference (-0.4727) and No: 8 (Sig = .002), Mean difference (-0.4727, No: 3 (Sig = .008), Mean difference (-0.3909), No: 2 (Sig = .013), Mean difference (-0.3636), No: 9 (Sig = .016) Mean difference (-0.3364) which were perceived higher perceptions by Romanian participants compared with Lao. Specifically, the first biggest difference (-0.9364) was obtained by variable No: 6, Romanian participants had higher perceptions rate than Lao on the following issues "After public holidays and vacations university students came back to study on time in accordance with the academic year calendar setting up". Thus, it is able to conclude that Lao students respected in a lower level of the academic year calendar. The second biggest differences (-0.4727) were obtained by two variables such as No: 5 and No: 8, Romanian participants had higher rate perceptions on the following issues, "The teaching and learning management of the university, faculties, departments, divisions and other levels start and end on time with the academic year calendar setting up", "The university's academic year calendar of Events Website, is intended to open to the general public; interested members of the university community, students, faculties, alumni or staffs, sponsored by an official recognized campus departments, or student groups". Thus, it is able to state that Romanian teaching and learning management is more correlated with the academic year calendar than the Lao. Finally, the other statistical significant differences were obtained by three variables such as No: 2 and No: 3 and No: 9, Romanian participants also had higher rate perceptions on the following issues such as "The academic year calendar management of university includes academic, administrative, enrolment, registration, billing, exam dates, college advisors and faculties / departments/ program advisors", "The students' enrolment at university is completed in the first 2 months of the new academic year by the master academic calendar" and "The academic calendar management of university resources and tools are to assist teachers, advise students, including advisor lists, calendars, catalogs, and services for faculties and other departments", (See table No: 4, below).

Table 4: F4. The Academic Year Calendar at university levels

No: Variables	t-value	Significance	Mean difference
1	-.509	.611	-.0727
2	-2.511	.013	-.3636
3	-2.691	.008	-.3909
4	-1.184	.238	-.1727
5	-3.403	.001	-.4727
6	-6.352	.000	-.9364
7	.000	1.000	.0000

No: Variables	t-value	Significance	Mean difference
8	-3.106	.002	-.4727
9	-1.163	.016	-.3364
10	-2.425	.246	-.1818

Hypothesis 5: Based on the independent t-test, the major items of factor No: 5 which influenced on the teaching management at the university levels were only one variable as No: 3 which was perceived higher levels by Romanian participants compared with Lao. The several statistical significant differences are between some variables in accordance with participants from two countries. The table No: 5 below presents the biggest difference of variable No: 3. Thus, Romanian participants had higher perceptions than Lao on the issues stated that “The modern teaching facilities and technologies are used in and outside the classroom such as LCD, tape players, Internet, Intranet, laboratories, Overhead projectors, computer connection and library services”, (See table No: 5, below)

Table 5: F5. The Teaching Management at university levels

No: Variables	t-value	Significance	Mean difference
1	-1.585	.114	-.2364
2	-1.556	.121	-.2182
3	-1.658	.099	-.2364
4	-.850	.396	-.1273
5	-.942	.268	-.1545
6	1.307	.192	1909
7	-.063	.347	-.0091
8	.449	.654	.0636
9	-.332	.740	.1417
10	-1.110	.950	-.0455

Hypothesis 6: Based on the independent t-test, the major items of factor No: 6 which influenced on the learning management at the university levels was only one variable as No: 7 (Sig =.069), Mean difference (-0.2455) which was perceived higher perceptions levels by Romanian participants compared with Lao. Specifically, the variable No: 7 stated that “ The Learning activities work well with students who accept responsibility for their own learning, enjoy working with their peers, and/or those who may become easily frustrated when facing new challenges not directly addressed in the classroom”. In this regard, the Romanian participants are more aware than Lao on the importance of the learning materials which show how the different study topics are interrelated. (See table No: 6, below).

Table 6: F6. The Learning Management at university levels

No: Variables	t-value	Significance	Mean difference
1	-.870	.385	-.1182
2	.322	.748	.0455
3	-.261	.794	-.0364
4	-.269	.788	-.0364
5	-1.092	.276	-.1545
6	-1.061	.290	-.1455
7	-1.830	.069	-.2455
8	-.207	.836	-.0273
9	-.951	.449	-.1000
10	-.758	.343	-.1273

Hypothesis 7: Based on the independent t-test, the major items of factor No: 7 which influenced on the academic grading management systems at the university levels were all ten variables. It is a very interesting result to notice in this research is that all ten variables do differ from one to the other (with a value of the error coefficient under or very close to the threshold of 0.05). All differences of the mean scores are negative, thus, Romanian participants have higher perceptions levels than Lao. The following are as follows: (1). The university academic committee boards establish the academic grading system to integrate database for daily operations of university: entering new enrolments, monitoring average daily attendance, tracking student progress, and using data to direct your decisions, update, share, and use students information to help increase achievement. (2). Misuse academic grading system, the academic officials cannot maintain course based or standards based grades, produce progress reports, analyze students’

grades, print report cards to track progress towards graduation, and generate permanent transcripts, the process of analyzing assessment results for the entire student populations and viewing each student's entire history. (3). The same format of academic grading system is widely-used with the universities, faculties, departments, divisions and other units (4). The grading system of university is available online for students to access academic reports, attendance, assignments, discipline, progress reports, announcements, and contact information, accessible from anywhere with Internet access, using only a web browser. (5). Is able to allow the teaching assistants and instructors to enter and modify grades online. (6). Is to allow students to access their grades online, log in and checks their grades at any time, provides statistical information. (7). Is able to track and handle re-grade requests; all information about re-grades should be available to the students, the associated teaching assistants, and the course instructor. (8). Is able to export grades in standard formats, the grades can be sent to the registrar electronically, allows grades to be imported by software packages like Microsoft Excel, in case sophisticated statistical analysis is desired. (9). After first semester examinations, students are able to receive their grade reports from departments, divisions and faculties as they requested. (10). After second semester examinations, students are able to receive their grade reports from departments, divisions and faculties as they requested, (See table No: 7, below).

Table 7: F7. The Grading management systems at university levels

No: Variables	t-value	Significance	Mean difference
<i>1</i>	<i>-1.835</i>	<i>.068</i>	<i>-.2636</i>
<i>2</i>	<i>-3.398</i>	<i>.001</i>	<i>-.4455</i>
<i>3</i>	<i>-2.079</i>	<i>.039</i>	<i>-.3091</i>
<i>4</i>	<i>-2.803</i>	<i>.006</i>	<i>-.4818</i>
<i>5</i>	<i>-3.094</i>	<i>.002</i>	<i>-.5182</i>
<i>6</i>	<i>-4.993</i>	<i>.000</i>	<i>-.8000</i>
<i>7</i>	<i>-3.986</i>	<i>.000</i>	<i>-.6273</i>
<i>8</i>	<i>-4.601</i>	<i>.000</i>	<i>-.6818</i>
<i>9</i>	<i>-7.431</i>	<i>.000</i>	<i>-1.0455</i>
<i>10</i>	<i>-6.365</i>	<i>.000</i>	<i>-1.0364</i>

Hypothesis 8: Based on the independent t-test, the major items of factor No: 8 which influenced on the academic affairs services management systems improvement at the university levels were five variables as follows: No: 1 (Sig = .003), Mean difference (-0.4273), No: 2 (Sig = .000), Mean difference (-0.5455) with these two variables of differences were negative which were perceived higher levels by Romanian participants compared with Lao while Lao participants had higher perceptions on the following variables such as No: 6 (Sig = .025), Mean difference (.0000) No: 9 (Sig = .645), Mean difference (.0636) and No: 10 (Sig = .004), Mean difference (.4091). Specifically, those issues are related to the statements “The academic affairs committee boards of university have to improve access to the academic affairs services technologies and information resources”, “ To improve the labour-management relations internal and external universities for the graduates”, “To increase academic affairs services management effectively and adapt to the social demands quickly”, “To improve academic affairs services management professionally by using modern technologies, technical supports by decentralization management” and “To work closely with ministry of education to develop academic plans to catch up with the regional and international levels”, (See table No: 8, below).

Table 8: F8. The Academic Affairs Services management Improvement at university levels

No: Variables	t-value	Significance	Mean difference
<i>1</i>	<i>1.000</i>	<i>.003</i>	<i>-.4273</i>
<i>2</i>	<i>.679</i>	<i>.000</i>	<i>-.5455</i>
<i>3</i>	<i>.509</i>	<i>.340</i>	<i>-.1364</i>
<i>4</i>	<i>.438</i>	<i>.850</i>	<i>.1426</i>
<i>5</i>	<i>.406</i>	<i>1.000</i>	<i>-.0273</i>
<i>6</i>	<i>.310</i>	<i>.025</i>	<i>.0000</i>
<i>7</i>	<i>.402</i>	<i>.</i>	<i>.3273</i>
<i>8</i>	<i>.370</i>	<i>281</i>	<i>.1545</i>
<i>9</i>	<i>.379</i>	<i>.645</i>	<i>.0636</i>
<i>10</i>	<i>.267</i>	<i>.004</i>	<i>.4091</i>

7. Discussion and implications

Based on the results of eight factors which related to the academic affairs services management systems operating in those universities, the research has found that the major factors which influence the academic affairs services management from factor No; 1 to factor No: 8 were very different from one to the other in terms of the academic management. Regarding the factor No: 1, the major factors influenced academic affairs services management systems operating in those universities were related to two components which were concerned with the academic affairs committee boards of universities. Lao academic affairs committee boards of university had to monitor the working performance with other universities regularly, on the other hand, Romanian academic affairs committee boards of university had high authority to work on the academic affairs services management assessment. Likert suggests that organizations functions best when members act not as individuals but as members of high effective work group, Mullins, 1993, p.170), cited in Likert (1961, p. 38). The second, factor No: 2, the major factors influenced the financial supports were related to six components which were concerned with the governments budgets on education, the universities lacked self-financial supports and had limited internal and external funds to support. The third, factor No: 3, the major factors influenced the educational policies were related to two components which were concerned with academic affairs committee boards who were in charge of those matters to find out the appropriate policies with the modern technology and provide health services in the universities. Mullins, (1993, p. 230) pointed out that leadership does not necessary take place within the hierarchal structure of the organization. Many people operate as leaders without their role ever being clearly established or defined. This means that the academic affairs committee boards of universities have to decentralize the authority to subordinates to cooperate within the universities and external organizations. The fourth, factor No: 4, the major factors influenced the academic calendar management were related to six components which were administrative work, enrolment, teaching time, holidays, social activities and resources. The fifth, factor No: 5, the major factors influenced the teaching management were related to one component which was concerned with the modern teaching facilities and technology used in the university. The sixth, factor No: 6, the major factors influenced the learning management were related to one component which was concerned with learning activities work well with students who accepted responsibility for their own learning. This mean that the lecturers have to pay more attention on students in terms of their learning progress. The seventh, factor No: 7, the major factors influenced the academic grading systems were related to all ten components which were concerned with academic affairs committee boards, grading systems, services for students. Therefore, those ten components were very important issues of the university. Finally, the factor No: 8, the major factors influenced the academic affairs services management improvement were related to the academic affairs committee boards of universities which were concerned with the management activities and decision making within internal and external organizations.

8. Conclusion

Based on those results mentioned above, it is to detect that the five major factors influenced the academic affairs services management systems which have been operating in those universities. The major factors influenced the academic affairs services management perceived higher levels by Romanian participants on the factor No: 3 which was concerned with educational policies, factor No: 4 was about academic calendar management, factor No: 5 was about teaching management, factor No: 6 was about learning management, and factor No: 7 was about academic grading management systems. On the other hand, Lao participants had higher perceptions levels on the factor No: 1 was about the effective of academic affairs services management, factor No: 2 was about financial supports, factor No: 8 was about the improvement of academic affairs services management of the universities. Therefore, the academic affairs committee boards of two universities such as the National university of Laos and Lucian Blaga University of Sibiu have to take this into an account to improve the academic affairs services management in order to make those working systems be appropriate for the real situations in the regions and the world. Specifically, the major factors were identified by this research must be introduced to the ministry of education and the related organizations and high ranking officials who are in charge of the academic work in those two universities to find out the better solutions. It is necessary for those two universities to improve more specific factors such as the effective academic affairs services management of universities, to consult with the governments on the educational financial supports, the educational policies and others which based on the results of this research to apply for the practical ways. In sum, this research is very valuable data base

for the academic affairs committee boards of universities, ministry of education and other related organizations to both public and private sectors to use them for the educational purposes.

9. Recommendations

Based on the results of this research, the following recommendations should be considered:

1. The governments of two countries should have more financial supports and the effective educational policies for the educational sectors.
2. The academic affairs committee boards of two universities have to improve the academic affairs services management systems such as calendar, teaching, learning, grading management systems.
3. The academic affairs committee boards of two universities have to work closely with the top levels to lower officials in the universities and international levels.
4. The academic affairs committee boards of two universities have to develop the human resources.
5. In case of Laos, national budgets should be more added in accordance with the increasing numbers of students.
6. In case of Laos, the university has to provide technology equipment, Internet access linking from internal and external communication.
7. In case of Romania, the university has to have the effective educational policies, calendar, teaching, learning and grading management systems.
8. The further research of academic affairs services management systems should be more and specific areas in those two universities.

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3. Marketing, Commerce and Tourism and a New Paradigm of Change

STUDIES REGARDING "BUDUREASCA" WINES AS TOURISTIC AND AGROTOURISTIC RESOURCES

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Abstract:

Aims of the paper – This paper has proposed to bring before the public the immense treasure of Romanian vineyards and to contribute to a better knowledge of vines of Romania and, in particular, of Prahova county, the existing values stored here, as well as those ignored or forgotten, the addressing the complex issue of rural tourism in an area with tourism potential but poorly promoted surface.

Research goals - Integrating production of vine into the market is ensured by strengthening the private and type of economic organization in which natural processes go hand in hand with economic mechanisms in a manner that creates a balance of organic demand - demand. For this purpose open development strategies are needed that exploit the advantages created by the dominant share of private ownership in vineyards and ensure intensive development to achieve competitive supply of vines products and an expanded market for all types of vines.

Expected results - news and analysis on this basis, the paper makes a diagnosis on the space arguments evaluated and outlines a possible strategy to develop the rural tourism in the vineyards.

Key words: agro touristic resources, rural area, tourism potential, vine, vineyard.

JEL classification: O13, O20, Q00, Q10, Q26.

1. Introduction

In regions that today form the Romanian space, vines grew wild thousands of years ago. *Vitis Silvestris*, native Carpathian oak forests, was the basis of the famous Dacian wines.

In Prahova, Wine Road reissuing older segment of the wine road used by the Romans, who traversed Europe. It goes through the famous vineyards of the county and includes stops at the mansion, court and monasteries.

The road passes through villages: Filipeștii, Băicoi, Boldești, Bucov, Valea Călugărească, Iordăcheanu, Urlati, Ceptura, Fântânele, Tohani, Gura Vad and to exploit fully, liquid gold, were introduced tourist circuit wine cellars from Urlati and Azuga which are offered for tasting exceptional wines and sparkling wines, with traditional rustic menu.

2. MATERIALS AND METHODS

Vineyard „Big Hill” called: „Red Wines Patria” vineyard in Curvature Carpathians is the Romanian wine rennet space with climatic conditions very similar to those from the Bordeaux region because it is on the same latitude. Vineyard vines centers of Great Hill are: Boldești, Valley Călugărească, Urlati-Ceptura, Tohani-Mizil, Cricov. Birth, growth and education in the seven wine cellar is located in the vineyard „Big Hill ” from Păulești, Valley Călugărească to Tohani. (Honțuș A., 2005).

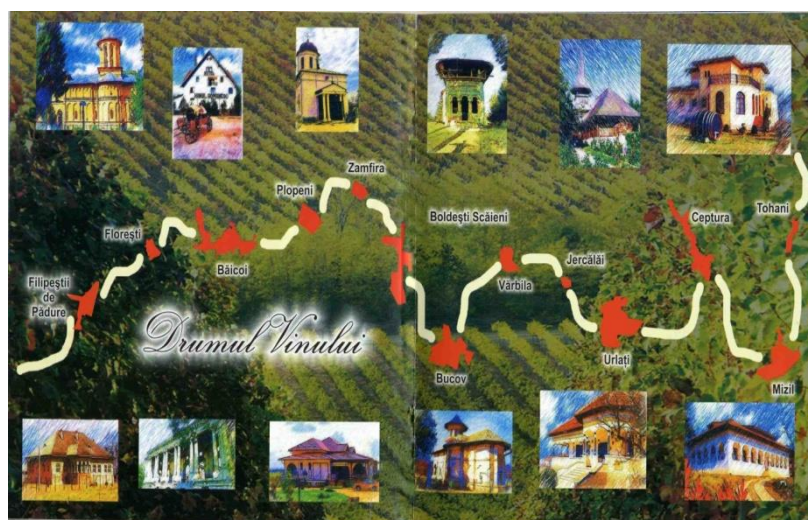
Figure 1: Prahova County



Source: www.google.ro/search=judetul prahova – harta

In areas of vineyard vines „Big Hill ”and in those of fruit, you can practice the form of tourism, including visits to vineyards and orchards, as well as assisting in the manufacture of wine.

Figure 2: Wine Road



Source: <https://www.google.ro/search-drumul vinului>

Big Hill. The Wine Road, an oasis of calm, sunny hills of vineyard rises Hill Great historical source of exceptional wines. In this area blessed - a microclimate similar to the well-known Bordeaux wine-growing areas, our specialists have chosen to put into work mastery grape-growers and wine producers and vineyard already succeeded: in just two years these hills have proven to be worth the reputation. They skilfully exceptional wines that, although young, have won over 10 medals in national and international competitions in the field.

Grapes are taken from the 300 hectares of own vineyard, planted with varieties of grape vines selected, which allows very strict control on quality. Our wines are targeted to both connoisseurs and collectors and those who want to drink good wine at a fair price, balanced, both domestic and foreign markets.

3. RESULTS AND DISCUSSIONS

Vineyard Budureasca. With its location on the parallel 45°3' and 38 km to east longitude meridian, it has a temperate continental climate with an average annual temperature of 10.6 degrees C (Crețu R., 2012).

Sunshine duration is 15 h 23', at the summer solstice and 8 h 49' at the winter solstice. The amount of active ranks vegetation period is 3318. The landscape is generally flat, with an elevation ranging from 100 to 417.3 m long and exhibition southern slopes with inclination of 15 to 25%. Groundwater level is between 10 to 12 m, at the foot of the slope and 50-60 m, on top of it. All this combined with rainfall of 524 mm and leached chernozem soils, pseudorendzine and rendzine explain why *Dealul Mare* has wines of exceptional quality, get rewarded with dozens of medals in competitions both national and international ones.

Wine as lifestyle. Magic potion is more than natural companion to food lunch, dinner and libations of any kind, either diurnal or nocturnal. Wine is a true way of life, a philosophy in itself. Self-esteem and aspiration to better intervene when you want a high quality wine, not a spirit impersonal that can be achieved with any wine, in most cases of questionable quality and origin. One of the secrets of a bon vivant is the quality of ingredients that make up a happy epicurean existence. We of *Dealul Mare - Budureasca* vineyards strongly believe in the triumph of quality over quantity.

Competitive advantages

“We are a small producer, but with a well-diversified portfolio. Our range includes wines for all tastes and this is where our competitive advantage. We put our heart and passion in wine, which leads us to maintain a high quality standard extreme. We have full control of the grapes used in the wine. Our philosophy is to limit and control the amount of quality in order to obtain the guarantee of a superior wine quality. Bottles coming off the production line in glasses bring our customers the best wines in price and quality and experience and passion that brings oenologist our place in the production process are found in the superior quality of each assortment of brand *Origini* and *Budureasca*.”

Cellar Budureasca

Currently underway is the construction of a new winery project with hotel service, in which you will be able to stay and taste those wines. Also in the near future will be a launch of a new brand, namely 101-102.

Wines *Budureasca* addresses both audiences connoisseur, passionate blend of cuisine and fine wines, and those who want to have a table wine with which to spoil your senses. We recommend joining a wine but foods like beans with sausage, tripe soup or cabbage. The combination of wine and food is purely subjective and you taste. A good fit would be one in which both highlighted the nuances that favor food and wine. It is recommended wine pairing light with light dishes and those with strong foods with the same type of character. Such light wine pairing should be done with food cooked by boiling and those with a high alcohol content and dry to cooked dishes from the grill. Also in a preferred serving wine tasting is a low alcohol and sweet, before those with high alcohol content and therefore a stronger taste. As recommended food to be served with a good wine, the category of the *Budureasca*, we can mention: steak, Rolls, spaghetti, pizza, hamburgers, chili, pork chops, beef kebab, etc.

Presentation profile about SC Budureasca LLC

Gura Vad number 472,

Prahova County.

Tel: + (0) 244 253 299, + (0) 788 258 211

Mail orders: comenzi@budureasca.ro

Fax: + (0) 244 253 321

SC Budureasca LLC was bought at Rotherfield Jersey Properties Ltd - United Kingdom, which started business in Romania in 1995. By the time of acquisition, the company has vinified for another company owned by the same group of shareholders who bought the company under the name of Rotherfield Properties Romania SRL.

Takeover, was retained as employees, with about 20 specialists and winemaker, in the person of Stephen Donnelly, who has already shown that it is an inspired winemaker in full international consecration. Initial investment of over 1 million and were added and others (currently reaching over 6 million euro), such as increased storage capacity, allowing storage of larger batches of wine and new bottling lines bottles of 75 cl. and Bag-in-Box system.

The tourism potential of the area and the unique beauty of places led naturally to the project of building a resort in the middle of the vineyard. With a suitable design - respect for the history of the area, it will be the destination for those wishing tastings of fine wines accompanied by feasts as (Ștefan P., 2012).

Table1: Undertakings with the unique identifier 12647770

Name payer:	BUDUREASCA
Address:	472 Gura Vadului
County:	PRAHOVA
Number of the commercial register:	J29 /1123 /2001
Act authorization:	-
Zip Code:	-
Phone:	0244253299
Fax:	0244253321
Condition society:	REGISTERED dated December 17, 2001
Observations concerning the company:	-
Date of last statements: (*)	April 18, 2012
Last processing: (**)	April 23, 2012
Income tax (date of registration):	01-01-2008
Microenterprise income tax (date of registration):	NOT
Excise (date of registration):	01-02-2004
Value added tax (date of registration):	08-02-2000
Social insurance contribution (date of registration):	01-01-2008
The contribution of insurance for work accidents and occupational diseases caused by the employer (date of registration):	-
Unemployment insurance contribution (date of registration):	01-01-2008
Employer's contribution to the Guarantee Fund for the payment of social debts -date of registration:	01-01-2008
Contribution for health insurance (date of registration) :	01-01-2008
Contributions Medical leave from natural or legal persons (date of registration):	01-01-2008
Gambling tax (date of registration):	NOT
Tax on income from wages and salaries equivalent (date of registration):	01-01-2008
Tax on oil and natural gas from domestic production (date of registration):	NOT
Mining royalties / revenues from concessions and leases (date of registration):	NOT
Petroleum Royalties (date of registration):	NOT

Table II: Indicators in the annual financial statements at December 31, 2011 filed with the local offices of the Ministry of Finance cf. Order no. 52/2012

INDICATORS	
BALANCE SHEET	LEI
ASSETS - TOTAL	5389499
CURRENT ASSETS - TOTAL, OF WHICH	8654638
STOCKS (MATERIALS, PRODUCTION IN PROGRESS, SEMI-PRODUCTS, FINISHED GOODS, GOODS ETC.)	4840068
CLAIMS	2977970

CASH AND DEPOSITS WITH BANKS	836600
PREPAID EXPENSES	10543
LIABILITIES - TOTAL	10800837
DEFERRED REVENUE	-
PROVISIONS	-
EQUITY - TOTAL, OF WHICH:	3253843
CAPITAL PAID	1908000
PATRIMONY	-
PUBLIC DOMAIN	-
INDICATORS OF PROFIT AND LOSS	
NET TURNOVER	8101072
TOTAL INCOME	8570402
TOTAL EXPENSES	8493854
GROSS PROFIT OR LOSS	
-PROFIT	76548
-LOSS	1.
-NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	
-PROFIT	50415
-LOSS	0
INDICATORS FROM THE INFORMATION DATA	
AVERAGE NUMBER OF EMPLOYEES	33
TYPE OF ACTIVITY, ACCORDING TO CAEN CLASSIFICATION	MANUFACTURE OF WINE FROM GRAPE

Figure 3: Vineyard Budureasca



Source: <http://magazin.budureasca.ro/>

They skilfully exceptional wines that, although young, have won over 10 medals in national and international competitions in the field.

Figure 4: Honors and Awards

Source: www.budureasca.ro

4. Conclusions

Romanian wines have competed successfully with the famous vineyards of Bordeaux wines, Madeira, Tokai to. Unfortunately after 1989, both quantitatively and qualitatively, the wine sector in Romania has suffered a strong decline (Tindeche C., 2004).

Romania was and it still is a country with a strong tradition of vine growing and wine producing the highest class.

The tourism potential of the area and the unique beauty of places led naturally to the project of building a resort in the middle of the vineyard.

With a suitable design - respect for the history of the area, it will be the destination for those wishing tastings of fine wines accompanied by feasts as.

In this area blessed - a microclimate similar to the well-known Bordeaux wine-growing areas, have chosen to display their work specialists mastery grape- growers and wine producers and vineyard already succeeded: in just 2 years proved all these hills deserves reputation.

The seasonal and permanent tourism activities can be provided by exploiting the rational development of settlements and the existence of equal opportunities for development.

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- *** - https://www.google.ro/search=judetul prahova - harta.

PRELIMINARY CONSIDERATIONS ABOUT THE BALNEOLOGY IN BULGARIA AND ROMANIA

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Abstract: *the paper present some preliminary conclusions of Romanian Bulgarian study on labour force in balneology. The main ideas lead to a system crises as the two systems were not able to pass the transition from the former socialist system to the free market one and are not capable to face the fierce competition which is rising in the global market. Some main directions of action are presented as preliminary solutions which are supposed to be possible to turn into force in the next years.*

Key words: balneology labour force, Romanian and Bulgarian balneology, transition in balneology

JEL classification: I00, J21, P46

The Project “Creating a transnational network for balneology tourism” Bulgarian Ministry of Labour and Social Policy – EU Human Resource Development Operational Program BG051PO001-7.0.07 has focused in finding good practices to be disseminated in the two countries in order to improve the management and the education of labour force working in balneology. The study, the theoretical part which has overlooked the performs in countries with a tradition and good balneology development and the field research which has made an extensive analyse of local conditions in Romania and Bulgaria has shown that the main problem, in both countries is the lack of a coherent and valid state politics in government and governance ways of handling with balneology in the countries themselves and as a part of the EU. The study is in progress and the findings will be soon published.

According the preliminary findings of the Phase 2 of we can conclude:

The both countries have an important natural reserve of natural factors which can be used for balneology. The both countries are perceived as less developed in EU. They have to face similar challenges:

- they have had important capacity for balneology during communist regimes, considered as modern and well fitted at the time;
- they were public funded and addressed domestic tourism to show the force of the socialist system to supply a high standard of medical services to their the populations, avoiding chemical procedures;
- the transition has dismantled the existing facilities and drastically diminished the public funding; the new constructed conveniences are unprofessional;
- the education system still prepare specific qualified labour forces according to the old rules;
- a miss of political strategies for development has disconnected their balneology from the new world standards;
- there is a desire among private actors involved in balneology to take steps to re-join the international market.

1. The main urgent measure which must be taken immediately - as the process is in progress in EU - is opening the access to the health insurances system of Western EU countries. The governments of the two countries have made the required arrangements to open access for their inhabitants to the Western medical services performed in EU, using the national Health Insurance Houses (HIH), usually at the domestic funding level. The Western HIH – private and public too - have accepted to fund some medical services supplied to their clients, mainly in stomatology, in order to take advantages of the much lower prices used in Check Republic, Hungary etc. and sometimes Romania. The pressure of shortage of funds and a strong increase of their age population, force Western HIH to find also ways to save their budgets using cheaper services as those existing in Romania and Bulgaria to play on the costs. This strategy imply two final directions to allow to reach the fruits of this funding:

- a. the modernisation of local facilities, including medical ones, according the global requirements;
- b. b. access to a huge market in development. The political arrangements are vital to determine the Western HIH – public or private - to come on these markets and generate the confidence of the local actors and the Western population.

A wide information campaign must be started among the Western doctors of the first line of medical services and staff of HIH, about the natural factors in local resorts and their results, including outcomes of

individual local balneology medical doctors, campaign which must be funded by public sources. In subsidiary, the political negotiation must not focus on the access goals, which is stated by EU Treaty, but on an open dealing of services' prices in progress, according to the quality and rarity of the services performed; the cooperation must lead to investments in facilities and know-how and mutual development rather than saving funds.

2. The main tool to generate a real and effective leverage effect on long term, is the spreading of information about the new concept of tourist destinations. In both countries, the education system – academic or research – are still promoting the old theories based on spatial layout and equipment, which are now, in touristic developed countries, the concern of local authorities' systematisation departments and architects charge as the actual technical and informatics progress allow almost anything. The new actual global trend means focused on how to put live into the tourist destination, how to facilitate the common experiences of tourists and locals. As long as we have searched there are very few exceptions. The academic systems have to turn them on towards the global information! The lake of this knowledge is obvious in the actual chaotic development of the local resorts. Nonprofessional, amateurish local actors in local councils, administration, tourist and medical management, and mainly the lake of total specific culture among the locals, either involved in tourism or not have led to the actual results. The local actors must be trained not to supply services but experiences, ways of living! It is a long process which must be started as soon as possible, not only among the central administration but mainly on resorts.

3. The both balneology systems hang on the central and local political grace mainly largely for funding and property titles, plus a powerful and strong administration bureaucracy. We are not arguing for reducing the state involvement as the results of the transition are obvious. But for a political agreement in order to establish a political development on a longer time period, which must be stable even in case of frequent political changes, which cancel all former measures and promote new ones and obliged the public funding or property titles stability's dependent actors in balneology, to fit their activity. In countries with four seasons the off seasons, clients rely on public funded clients, and further investments on public funding and / or property titles. The domestic medical services are short of money, when the old population is growing, especially the one whose relatives left the country to work away and the chemical therapies are more and more expensive as global drug producers are rising their prices: a long time strategy for balneology might be an issue and might bring foreign incomes, if the offer will adjust the global requirements. For the time being, the education system is spending its funds to trained labour force for foreign countries, and local resorts have to stay on low qualified personnel.

4. The infrastructure has to be modernised and reorganised. It is more that modernization, it is nearly rebuilding. There are some main directions:

- The general image of the resorts. That include the architectural problems from ground to roof (rehabilitation of buildings, painting, streets, parks, alleys, public areas and facilities, public communications etc.) as well as the life which must be reorganised according to the new destination principles. The local councils have to work together with local actors and local population, the experience of Sibiu might be a guide. We point up that the regulation concerning the classification of resorts (distinct as the classification of units) might be valuable, if it is not transformed into a political tool or a corruption one.

- The rehabilitation of tourist infrastructure: hotels, pensions, restaurants, leisure facilities, etc. the investments are big, as the old establishments have a high rate of wear and the new one are almost done in an amateurish stile which do not suit the patience special needs. As the existing establishments hang on public funds (which are in several administrations) and private property a closed cooperation plan must be drawn for each resort. The funds have to come also by special guaranteed projects by the government, mainly for those where global brands will be implied (see Danubius - Budapest in Sovata or Best Western in Balvanyos). A special and distinct attention must be allowed to luxury establishments, using local natural factor AND global procedures, offering also high comfort for business and events, but for the rich third age people. Hilton in Sibiu or palace in Govora

- The accommodation system is the main condition that allow the exploitation of the natural cure sources in a resort. We have pointed out that the development of balneology is compulsory linked to a general level of development and quality of the infrastructure which allow a normal integration in the international market whose rules must be observed. Our finding concerning the general conditions and the accommodation system has led to the conclusion that Romania is still at the standards of 70's that means non-functional legislative rules and a lake of attention of the politicians for balneology, poor and old accommodation facilities or new built ones that are far to cope with the commonly rules use in the

international accommodation resorts and hardly fill the special requirements of balneology. The Romanian balneology accommodation system might be only for local and low demanding clients.

- The treatment facilities must be reorganised to fit the spas requirements. The architecture might be adapted and maintained but it must be fitted up to last procedures global available. Sometime the natural factors are harming the infrastructure but the new materials can overcome the problems. It is crucial that the resorts might promote widely the emergency facilities, to provide confidence to EU patients but mainly to their home medical doctors. These facilities should be organised distinctly for mass access and separately only for private use to fit the two kinds of clients. The regulations concerning the accreditation of this kind of units are good but their application has led to too many treatment units in the same resort, almost of them poorly equipped and with minimum of staff

- The transportation to the resorts should be organised to provide easy access. Transfers from airport for Western clients (they will be individuals or small group, so transfers must be organised accordingly) and by regular buses for domestic clients; for the time being train is not an option as this service is poor in both countries. Local transportation for pleasure should be of main importance, may be even using subventions for off seasons.

- Complex units including all in-house services must be stimulated in order to create an high comfort offer, competitive on global scale see Ana Hotels in Eforie or Amathus global chain

- The actual high school education net is largely developed but the professional units were almost dismantled. The actual net has to get into contemporaneity and change their curricula according the global exigencies. As almost of the staff in hotels, restaurants and leisure activities live in the neighbourhoods of resorts, the apprenticeship has to be reorganised as it fit to the financial power of local units. In order to supply training services at global standards public funds must be allowed for specialisation of local staff in top units in the country or abroad (by EU funding, even if during the last years large funds were spent with insignificant results ..) during low season. This funds will save temporary unemployment aids and will support top units during off seasons. At least, social funds must be allow to cover the medical security and pension contributions during off seasons, otherwise the trained personnel will fly abroad! In Romania there is no longer any support for the staff during off season time and they just have to stay home with no cover.

- The sensitive sector is the medical staff, either with an academic education or high school one. The education units are accredited, but it is rather difficult to accept, at least for Romania, that they can supply honest training in towns with no facilities and no tradition in balneology. The departure of graduates and trained personnel to Western countries, is tied to low salaries, and for, Romania to winter months of unemployment with no secure aides. The curricula of these units must be changed according the requirements of global balneology and spas including global treatments and procedures. More, exchange of staff with foreign medical units for short periods must be developed, this way the confidence of patients' doctor and foreign clients might be won.

- The medical doctors are already specialise on some domains. But we have to prepare specialist on particular natural factors and gurus on the treatment of some diseases. See precedent Ana Aslan in Romania. More, even if the participation of medical doctors to international events is even now sponsored it is not productive enough, they have to get in the boarding of the international events, and associations etc. and promote the local natural factors among global medical world. The only one way to avoid the boycott of the drugs global companies is to include their medicine as optional or adjuvant. More, the resorts must also provide global treatments (see Ana of Eforie) and they must promote the medical team as well as the natural factor, with the same force, in the same time.

- We have to conclude that the labour force in balneology has to face major problems, during training, in integration in the system, during normal work, some concerning its physical number, some its quality, which cannot be solve without a cooperation between the politicians, the government and the management of the spas, as individual units and as tourist destination.

- In order to face the global competition in balneology, single large units must be organised in special places, closed to international access routes (capital, large town) with can promote natural factors AND the capabilities of medical staff. (v. Ana Aslan treatment in Snagov – Bucharest etc.

- As the actual balneology system rely on public funds, and the number of old people are increasing, the distribution of these funds must be transparent and professional distributed, as they are managed by several ministries of public administrators. A professional analyse of the subject must be performed as the national strategies on balneology, as in Romania, are purely theoretical. They must include strategically EU axes of development.

- Considerable confusion persists in terms of what employee health improvement really is and how it should be measured and managed as part of an integrated human resource strategy. In addition the need to be an employer of choice, the growing health care cost and the economic downturn have promoted widespread interest in corporate health, wellness and productivity programs. But how do we know that we are on the right track? Effective workplace wellness programs focus on an integrated multifaceted change management process that is directly related to the business outcomes. The prevention of sickness and absence, and at the same time promotion of employee health are key outcomes for them. Thus, tracking and evaluating employer sponsored wellness programs are warranted. The Workplace Wellness Programs and Best Practices focus on global benchmarked workplace health, wellness and productivity programs as they are evaluated against the ten most important international best practices. It addresses international trends that incorporate program design, strategy development, organizational change, program management and the evaluation of employee health, wellness and productivity outcomes.

Conclusions

This study must be closed as soon as possible and disseminated to the stakeholders in the both countries among politicians, economic and academic environment as well as the EU balneology professional organisation. New researches are necessary to be carried out targeted on the real balneology politics and commercial actions of the two governments and stakeholders. We can point the real risk of an implosion of the system because of the migration of the labour force abroad, and the weaker professional quality of the new generations of graduates in balneology in gymnasiums and in higher education system. More, the tradition of using balneology facilities might disappear as long as older generation will be replaced by new ones which have not being used to and thought to natural care.

We have to conclude that the labour force in balneology has to face major problems, during training, in integration in the system, during normal work, some concerning its physical number, some its quality, which cannot be solve without a cooperation between the politicians, the government and the management of the spas, as individual units and as tourist destination.

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4. Banking, Accounting and Financial Systems from the 21st Century Perspective

MEASURING SYSTEMIC RISK OF THE EUROPEAN BANKING SECTOR

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Abstract: *The aim of our research is to empirically examine the main determinants of systemic risk in the European banking sector, taking into consideration the biggest 20 financial groups that operate in Europe. The period studied is 2004-2012, which allows us to assess the impact of EU accession, and also the implications of the subprime crisis. The results show that financial soundness is significantly influenced by four bank-specific factors, namely: the ratio of non-performing loans, the liquidity ratio, the profitability ratio and bank size, but also by external factors, like banking concentration, annual GDP growth rate and inflation rate.*

Keywords: interconnectedness, financial crisis, too-big-to-fail, macroprudential regulation, panel regression

JEL Classification: G21, G32, C33

1. Introduction

The recent economic crisis emphasized the importance of financial stability for the entire financial system and at the economy in general. The intensification of the economic activity and the interdependencies established among banking institutions have determined an amplification of shocks' frequency, therefore witnessing their expansion to a systemic level and an exacerbation of the contagion effect. Furthermore the crisis has triggered a domino effect in the global financial markets and made us the "spectators" on the international scene of some famous bankruptcies, stock market crashes, closures of hundreds of companies, and central banks' desperate interventions in financial markets. All these phenomena have generated modifications regarding risk management, minimum solvency of the financial entities, monetary authorities' intervention and the behaviour of the financial market participants in crisis conditions.

The recent economic crisis and the recessionary slide revealed major institutional gaps that have accompanied the contemporary economic trend. In the present conditions, it was established a *status-quo* of budget deficits and public debt, so under the overwhelming effects of the economic crisis, there is, undoubtedly, a revival of the financial stability issue. For ensuring a healthy, solid and stable banking sector the evaluation and analysis of bank soundness is crucial, so that the possible weak points and vulnerabilities can be corrected and disposed. Hence, the main purpose of this paper is to examine the determining factors of systemic risk in the European arena, in this respect assessing the biggest 20 financial groups after their total assets. In this study the concept of systemic risk was measured through Z score, which is also used to measure financial soundness, thus these two notions will be analysed in a unitary manner.

The rest of the paper is structured as follows. Section 2 positions the paper within the existing literature. Section 3 discusses the methodological design approached in this paper, namely information regarding bank specific data and methodology. Section 4 presents the empirical results regarding systemic risk's main determinants in the European banking sector. The work ends with several conclusions.

2. Literature Review

Even though systemic risk is one of the most dangerous and most feared risks in the banking system this concept is not clearly defined. In the literature we find systemic risk being defined as an event that generates effects on the entire banking system, financial and economic, rather than just on certain institutions (Bartolomew and Whalen, 1995). The effects of systemic risk spread from individual level to general level, affecting the entire system. The systemic risk can be identified at national, regional or international level, and therefore it is considered that the systemic risk propagates with greater intensity at the level of interconnected institutions.

On the one side, systemic risk is defined as "any set of circumstances that threaten the stability of the financial system or public confidence in this system" (Billio et al., 2010). Likewise, ECB defines

this risk as the risk of financial instability whose propagation affect the functionality of the financial system up to the point where economic growth and social welfare suffers substantially.

On the other side, some authors focused in defining the systemic risk on other specific mechanisms, including instabilities, spillovers to the real economy, correlated exposures, information asymmetries, the contagion effect, the speculative action or negative externalities (Bisias et al. 2012). Another definition given to systemic risk specifies that it may overlap with the situation in which normal functionality of an economy is transformed into an "abnormal" situation, characterized by severe social disruption. Regarding the financial system the systemic risk may refer to those natural disturbances that may intervene in the functioning of an economic cycle, but which can cause adverse subsequent effects (Aglietta, 2001).

The broad sense systemic events include the phenomena previously described plus the severe shocks that generate negative effects on a large number of financial institutions or markets simultaneously. More specifically, in the narrow sense, a systemic event can be defined as a negative phenomenon encountered at the level of one financial institution, or the collapse of a certain market but which generate adverse effects on one or several institutions or markets. Important to note here is the "domino effect" that is felt from one institution to another from a certain market to another. Additionally, in a narrow sense, a systemic event is strong if the institutions affected later have gone bankrupt, as a result of the initial shock, in other circumstances them being solvent, or if markets would not fail without the initial shock.

Similarly, a systemic crisis can be defined as a systemic event that distresses a significant number of financial institutions or markets and their functionality disrupts the proper performance of financial system's activities. In defining the systemic risk two terms are essential: shock and propagation mechanism. The importance of systemic risk has two dimensions, its severity and the probability of its occurrence. Strong systemic events, mainly systemic crises are characterized by the lowest probability of occurrence, but once produced its effects can be serious. This fact leads in defining systemic risk through the impact which it can cause on the financial sector. Thus we notice that systemic risk can be horizontally distributed, which means that it affects only the financial system, or vertically distributed which involves the analysis of systemic events' impact across all sectors. Despite this, systemic risk is strongly felt at the level of financial system through the contagion effect. As a result, the implications can intensify at least from three reasons: the structure of banks, the interconnection of financial institutions through direct exposures of the settlement system and payment system, and the intensity of information from financial contracts and from issues of credibility.

Strong systemic events can cause external effects, for example, the individual costs caused by the bankruptcy of banks may be lower than the social cost caused by the same event. In these circumstances are necessary a series of measures and policies to ensure the safety of the financial system (Dragan et al., 2013). Another definition specifies that systemic risk is "the risk that affect financial services and is a result of identifying major problems at the level of financial system or only of a part of this, a situation that has the potential to create serious negative consequences on real economy" (IMF).

Also, systemic risk refers to the probability of encountering weaknesses in the entire system, being characterized by correlations of majority or of all parties of the system. This definition of systemic risk stress that the regulation should not be insular, even if it is implemented at the national level. For example, if the bank capital improvement rules and those of avoiding over-indebtedness are internationally established they can be implemented also at national level (Dwyer, 2009).

With reference to the sources of systemic risk, we observe that there are several, and among these we mention the panic caused amongst the depositors, financial shocks which adversely affected banks' balance sheet, uncontrolled actions of the banks which have taken some risky portfolios, the collapse of some financial institutions or non-financial entities, the collapse of the payment system, the blockage of the interbank market etc. The sources of the systemic risk could be both from inside the banking sector and as well beyond banking sector. Those sources varies according to each state's economy and the prevailing conditions in the financial markets, and are a consequence of financial innovations, of policies conducted by authorities or of the structural changes.

The systemic risk analysis is a basic element in understanding the financial crisis and the decisions undertaken regarding financial regulation, prudential supervision and crisis management (De Bandt and Hartmann, 2000). In this context, researchers and regulatory authorities have developed different concepts and created proposals about different methods of quantifying systemic risk thus being created important financial institutions (SIFIs) and specific measures for the avoidance and management of systemic risk (Viral and Sascha, 2012).

The recent crisis has highlighted how important is to understand the systemic risk in shaping policies and regulatory rules to the financial system, and the orientation of the initiatives taken in the

financial markets in order to ensure financial stability. Many proposals have been made for an increase of supervision of systemically important banks, others for a development of rules that avoid the bankruptcy of firms, others that limit the risks taken by banks, and rules which ensure an appropriate liquidity in the financial markets (Bullard et al., 2009).

In response to the negative repercussions of systemic risk there were manifested a range of policy measures. The increase of transparency can prevent the uncertainty in moments of panic and allow regulatory authorities to monitoring the entire system. The lenders of last resort can provide market liquidity and ensure loans for companies. Guaranteeing deposits can avoid the counterparty risk. The prudential regulation and capital requirements reduce the bankruptcy risk of companies. However, policies that address to the elimination of systemic risk can cause other risks, such as moral hazard but with a reduced impact (Murphy, 2012). The systemic risk should be measured and permanently monitored in order to ensure financial stability. The achievement of this objective will ensure the resistance and the performance of the financial system.

The principal element of financial stability policies is represented by the macro-prudential policies. In contrast to traditional policies, macro-prudential policies are focused on ensuring the stability of the entire system. The objective of macro-prudential policies targets systemic risk seen in both its dimensions. A first hypostasis is represented by the time in which occurs, reflected in the accumulation of systemic risk over the time, and the second source of its dimension is represented by the pro-cyclicality which highlights the contribution of financial institutions in the formation of financial imbalances.

Financial system contains certain essential components without which it cannot operate. For example, the largest and most interconnected institutions can become too big to fail if their bankruptcy determines cascading failure of other financial institutions. Thus, the systemically important banks are characterized as large entities with importance in the market and substantially interconnected, both between themselves and also with other financial agents. In the literature we find authors who raises the question if a bank is truly "too big to fail", if the bank size matters when is calculated the impact that would result from its failure (Zhou, 2010). Recently, both regulatory authorities as well academics have started to distinguish between the size of financial institutions and their systemic importance and they try to introduce new terms to highlight the potential impact which it can generate the bankruptcy of a bank.

The quantification of the systemic importance of financial institutions is important for the regulatory authorities but also for ensuring financial stability and macro-prudential supervision. On the other side, the recent crisis has highlighted the importance of the supervision and the monitoring of systemically important banks in certain periods of time. In his study Zhou (2010) showed that the measurement of systemic importance of a bank is not always correlated with the size of banks. Thus the size of a bank should not be considered representative for its systemic importance without a clear justification and it is necessary to have a proper quantification to identify the systemic importance of banking institutions.

During the recent financial crisis, the repercussions of the bankruptcy or the deterioration of the patrimony of global financial institutions were felt in the entire financial system and also has affected the real economic activity. In front of such situations the supervisory authorities and other relevant authorities had limited had limited the propagation of the problems encountered at individual entities, which however affected financial stability. Thus, massive intervention from the public sector has been seen necessary in order to ensure financial stability. Through the financial and economic costs associated with these interventions, and the increase of moral hazard, it is necessary the application of additional measures to reduce the risks which affect the systemically important banks.

In response to the situations of serious financial problems, the Basel Committee introduced a series of reforms in order to improve the stability of banks and of the banking system. Thus, it was decided to increase the quality and quantity of capital requirements in the banking system, the improvement of risk coverage, the introduction of risk coverage ratios, the coefficients of capital conservation and countercyclical indicators, but also an international indicator for the liquidity risk.

Part of these measures will have a particular impact on the systemically important banks through their business model which focuses on a greater concentration of assets and of the relationships with capital markets. But these measures are not sufficient to confront the negative externalities faced by the systemically important banks or to protect the financial system from the risks arising by these banks.

The reason why supplementary measures are taken in the case of systemically important banks is that they generate negative cross-border externalities in front of which current regulatory policies do not respond properly. Moreover, the bankruptcy of a systemically important bank is not a problem which is felt

only at national level through its cross border repercussions on financial institutions in many countries, but also in the world economy in general, and therefore is necessary to establish minimum requirements worldwide.

However, regulatory measures will never eliminate all risks which generate instability in the financial system. They will reduce these risks, but there will always be residual risks as a result of the interventions performed in order to ensure financial stability (Schich and Kim, 2010). No method will measure in a perfect manner the systemic importance of banks. This bank varies greatly as the structure of the activities carried, as well of the degree of risk which they represent for the international financial system.

Basel Committee considers that the global systemic importance should be measured as the impact of a bank's bankruptcy on the overall international financial system and of economy, and not as the occurrence risk of the bankruptcy. The selected indicators reflect the banks size, their interconnection, the absence of substitutes or financial infrastructure that would be for the services they provide, the global spread of its activity and the complexity of banks (BIS, 2011).

The last decades have brought to humanity the greatest benefits. At the same time, globalization, population, economic growth and technological progress have determined an extension of interdependencies and complexity of phenomena and of things, and in this manner there were created new threats regarding systemic risk. The recent crisis has revealed that systemic risk does not affects only the financial sector, it manifests globally.

The fact that no institutional structure, no reform plan was unable to eliminate systemic risk is clearly the necessity for radical changes in the governance which must guide the global financial engineering (Goldin, 2010).

3. Data and methodology

3.1. Data and selecting the variables

Bank specific data used in this study were obtained from financial and annual reports of the banks from our sample and from Bureau Van Dijk Bankscope database. The data regarding industry-specific variables were obtained from annual reports of the analysed banks and those referring to macroeconomic variables were mined from Eurostat databases.

The analysis was performed for the period 2004-2012. We focused on a sample of 20 systemically important banks from European Union, the demarcation criterion being the total dimension of assets. We noticed that 6 financial groups are from United Kingdom (*HSBC Holdings Plc, Barclays Plc, Royal Bank of Scotland, Lloyds Banking Group Plc, Standard Chartered Plc and HBOS Plc*), 3 from France (*BNP Paribas, Crédit Agricole S.A. and Société Générale*), 2 from Spain (*Banco Santander and Banco Bilbao Vizcaya Argentaria*), 4 from Germany (*Deutsche Bank, Commerzbank, DZ Bank Group and Landesbank Baden-Wuerttemberg*), 2 from the Netherlands (*ING Group and Rabobank Group*), 2 from Italy (*UniCredit Group and Intensa Sanpaolo*) and 1 from Denmark (*Danske Bank Group*). Another important criterion used was the one referring to data availability for the period studied, namely 2004-2012, so we outline the fact that this panel dataset is a strongly balanced one.

According to the literature, bank soundness or systemic risk is measured by one representative indicator, namely **Z score**, known as a beneficial instrument to measure the distance to insolvency or bankruptcy. The Z indicator includes three main components, respectively: bank performance (measured through return on assets – ROA), bank risk (measured through the volatility of ROA) and the system's stability (measured as a report between capital ratio and the volume of assets). The value of Z score is increasing with a higher profitability and capitalization and decreasing when there are registered fluctuating incomes (the standard deviation is increasing) (Merciera et al., 2007; Demirguç-Kunt and Laeven 2004; Scheck et al., 2009; Beck et al., 2006; Shih et al., 2010).

In this study the **dependent variable** is represented by *Z score* choice that can be explained through various reasons, but the most essential one is that this variable allows us to obtain an enlarged efficiency and also a higher degree of significance regarding the statistical results of the regression analysis.

The set of the **independent variables** taken in our study includes several determinants of bank performance and stability, which refer to bank-specific factors, but also to aspects particular to the banking industry and macroeconomic environment. In their selection we have been guided by the representativeness criterion, but we also took into consideration the data availability for our sample. In most of the above mentioned studies, the factors that determine bank stability are structured in two main groups, the internal and external determinants respectively. The first group of factors is specific for each bank and usually represents the direct result of the managerial decisions (Trujillo-Ponce, 2013). Bank-specific factors are selected according to the main parts of bank operations, respectively: capital adequacy, asset quality,

management quality, earnings ability, liquidity and bank dimension. The second group of factors, the external determinants, represents irrepressible variables by bank managers and reveals the economic and legal environment where the bank activates.

In our study we use the subsequent nine proxies for bank-specific factors, as following:

Return on Average Equity (ROAE) outlines an adjusted measure of a bank's performance, in which the denominator (shareholders' equity) is transformed to average shareholders' equity. In a more distinctive way, this ratio shows a bank's performance over a fiscal year, so the average-equity denominator is usually calculated as the sum of the equity value at the beginning and end of the year, divided by two. The effects of bank performance on systemic risk have been empirically investigated in various studies, where it was confirmed that the effect of bank profitability on bank soundness should be positive.

Net Interest Margin (NIM) is defined as the net interest income expressed as a percentage of average earning assets and reflects the profit obtained by a bank from interest-earning activities. This ratio is seen as a performance metric that examines how successful a bank's investment decisions are compared to its debt situations. A negative value denotes that the firm did not make an optimal decision, because interest expenses were greater than the amount of return generated by investments. Therefore, the anticipated sign of net interest margin is positive.

Capital adequacy measures the capacity of the banking sector to absorb any losses generated by risk occurrence or by some significant macroeconomic disparities. Most of the studies use as proxy for capital adequacy *the ratio of total equity to total assets* (CAR), which illustrates what proportion of the total assets of the bank is financed by its shareholders. With reference to the relationship of capital adequacy with banking soundness, the results in the literature are mixed. According to the conventional risk-return hypothesis, a lower equity-to-asset ratio leads to a higher expected return. On the other side, a higher equity-to-asset ratio has a positive impact upon performance and stability because the bank's financing costs are reduced. Subsequently, the anticipated sign of the equity-to-asset ratio is ambiguous.

The ratio of impaired loans to total loans (IL) is a proxy variable for credit risk and, at the same time, one of the most illustrative indicators that measure the quality bank's assets and indirectly the soundness of the credit portfolio. A higher level of the ratio of impaired loans to total loans and implicitly a deterioration of the credit portfolio quality has a negative effect upon bank performance and stability.

The management quality (MQ) is a major aspect that influences the soundness of a bank. According to the literature, among the most representative indicators for management quality is perceived the *cost to income ratio* (CIR). It reflects the aptitude of a bank to cover its operating expenses from the obtained income and is calculated as a ratio between the operating costs over total income. Therefore, we anticipate a negative relationship between cost to income ratio and bank performance and stability.

The ratio of loans to total assets (LR) refers to the fact that loans are risky assets, and their large share in the bank assets means a growth of the bank's exposure to risks. Consequently, a high value of this indicator could also mean a possible weakening of the bank assets' quality with a negative effect upon stability. On the other side, we consider the fact that the banking loans are the main income source for a bank, therefore, a high level of this indicator is expected to have a positive impact upon profitability and stability, since the bank registers a growth in the interest income. Thus, the overall effect is ambiguous, on one side it tends to be positive and on the other side it can be seen the opposite.

Bank size (BS) is exposed in our study by the natural logarithm of the accounting value of the total assets of a bank. Giving the academic literature, the relationship between bank size and soundness is mixed (Sufian, 2009; Pasiouras and Kosmidou, 2007; Dietrich and Wanzenried, 2010). Thus, on one side the bank size can have positive effects upon the performance and stability, where there are significant economies of scale. Also, in the case of the big banks with an increased degree of diversification of the banking products, a risk reduction is noted, with positive impact upon performance. Still, in the case of the extremely large banks, the size can have a negative effect upon performance because of the agency costs, the overhead of bureaucratic processes and other costs related to the administration of very big organisations.

Beside the above mentioned internal factors, our research targets also the external determinants of bank soundness, of which we selected **annual real GDP growth rate (GDPG) and inflation (INF)** expressed by annual inflation rate (consumer prices). In our research, we use the annual real GDP growth rate as a proxy variable for the economic activity. If GDP growth is high, the loan request rises and thus the banks can obtain superior profits. On the contrary, if GDP growth decelerates, the banks are threatened with a higher level of credit risk, increasing provisions and subsequently the bank's performance is reduced. According to the literature, (Demirgüç-Kunt and Huizinga, 1998; Mendes and Abreu, 2003; Naceur, 2003;

Pasiouras and Kosmidou, 2007) there is a positive relation between GDP growth rate and bank performance.

Regarding the connexion between inflation and bank soundness, some authors (i.e. Pasiouras and Kosmidou, 2007) consider that this depends in so far as the inflation is anticipated or unanticipated. If the inflation is anticipated, the banks can quickly adjust their interest rates, which leads to a faster increase of revenues compared to costs and consequently, bank soundness is positively affected. If the inflation is unanticipated, the banks are slower in adjusting their interest rate and there is a possibility that the bank costs increase faster than the income. Accordingly, the soundness will be negatively affected.

3.2. Methodology

The scientific approach involves efforts sustained by modern and comprehensive research methods, which combines a rigorous documentary research with a quantitative research. In this regard we propose a *panel regression* approach.

The *methodological strategy* is described in the following.

To identify the general level of systemic risk in the banks that are currently under study, we chose to calculate the *Z score* which shows the failure probability of an institution, being calculated after the following formula:

$$Z = \frac{ROA + C/A}{\sigma_{ROA}} \quad (1)$$

Where ROA - return on assets, C/A - the share of capital in total assets and σ_{ROA} - volatility of ROA.

In panel analysis it's noticed a significant number of advantages, thus identifying low multicollinearity, an enhanced econometric estimates and higher accuracy results. We continue with model testing, through the combination of fixed effects and random effects, therefore the consistency of the model is determined through Hausman test. It has to be mentioned the fact that in order to obtain a homogenous database we have applied the interpolation for two banking groups, namely DZ Bank Group and Landesbank Baden-Wuerttemberg because for some years there were not data available.

Continuing we are applying stationary tests, namely Levin, Lin & Chu and Im, Pesaran and Shin W-stat. The assumption of normality is tested with Jarque-Bera test. The test for heteroskedasticity is available for the fixed-effects model using Wald test, but we also applied LM test. For serial correlation we applied a user-written program, called xtserial, written by David Drukker.

Our paper is based on the studies of Boyd and Runkle (1993), Craig and Santos (1997), DeNicolò et al (2004), Beck et al. (2006), Laeven and Levine (2007), Beltratti and Stulz (2012) Alper and Anbar (2011), Molyneux et al. (2011), Fang et al. (2013).

The general linear regression model is:

$$Y_{it} = \alpha_0 + \beta_{mi} X_{mit} + \beta_{dt} X_{dit} + \varepsilon \quad (2)$$

Where i refers to an individual bank; t refers to year; Y_{it} represents the dependent variable that refers to the Z score and is the observation of a bank i in a particular year t ; X_m represents the internal determinants for a bank; X_d represents the external determinants for a bank; ε is an error term.

4. Empirical Results

Preceding analysis itself, it shall be accomplished the *descriptive statistics* procedure for the variables taken into the study, with the purpose of describing the main feature of a data collection, using some commonly measures of central tendency, namely the *mean* and some measures of variability, which includes the *standard deviation, minimum value and maximum value* (see table 1).

After the delimitation of the sample, we continue by studying the type of panel regression, in this situation noticing a micro panel. In what follows we have defined the mathematical model, and after we proceeded to test the type of effects relevant, in this analysis the most suited effects being the fixed ones, according to Hausman test (see table 2).

Return on average equity (ROAE) has a negative impact on bank soundness, fact that can be explained through the mutations that were observed in the banking system in the last years. These mutations were caused by the global financial crisis, so the results obtained are contrary to our expectations. *Net interest margin* (NIM) has a positive impact on bank soundness, aspect that is in line with our expectations.

Table 1: Summary statistics

Variable	T**	Mean	S.D.**	Min	Max
Z score	2004-2007	36.21	5.16	26.95	53.95
	2008-2012	41.78	7.11	27.76	64.62
ROAE	2004-2007	14.83	5.76	-5.02	27.75

	2008-2012	3.11	11.24	-49.82	19.71
NIM	2004-2007	1.29	0.62	0.31	2.69
	2008-2012	1.41	0.63	0.67	2.92
CAR	2004-2007	11.28	1.49	8.60	15.20
	2008-2012	13.69	2.26	9.32	21.30
IL	2004-2007	2.58	1.57	0.30	6.30
	2008-2012	4.7	2.57	1.20	10.41
CIR	2004-2007	58.73	7.53	44.26	74.34
	2008-2012	63.75	14.48	39.16	148.78
LR	2004-2007	44.17	15.41	10.33	65.38
	2008-2012	44.14	14.86	12.23	71.34
BS	2004-2007	20.69	0.52	19.89	21.76
	2008-2012	20.94	0.58	19.89	21.84
GDPG	2004-2007	0.74	0.44	-0.20	2.19
	2008-2012	-0.34	0.98	-3.50	0.70
INF	2004-2007	2.06	0.64	1.00	4.19
	2008-2012	2.25	1.04	0.81	4.48
Obs.	180				
N*	20				

Note: *N-number of cases (banking institution), **T-time interval, S.D.-standard deviation.
Source: author's calculation.

Capital adequacy rate (CAR) for banks, particularly for those that are operating internationally is a major concern for bank regulators worldwide. In our case we can notice that capital adequacy has a positive impact on the soundness of the banks taken under study, in line with our expectations.

Asset quality is expressed in our model by *impaired loans variable (IL)*, which has a positive impact on banks' stability in our sample. The results, contrary to our expectations, is explicable through the fact that in the years before the crisis, the increase in bank lending led to a growth in revenues, which offset losses from nonperforming loans so that, generally, the influence of the variable was positive but statistically insignificant. This indicator has proved to be significant in all systemically important banks for the level of 1%, but it's crucial to notice that the damage is not uniform between credit institutions, so the larger institutions recorded a higher level of this indicator. However it must be observed that arbitrage prudential measures taken by central banks or the relaxation of pro-cyclical prudential standards in order to maximize short-term profits, influences on a medium-term the portfolio quality.

The variable that reflects management quality is *cost-to-income ratio (CIR)*, which has a negative impact on bank soundness, observing that an increase in the cost-to-income ratio will generate a decrease of bank's stability, in line with our expectations.

In the case of the *liquidity ratio*, namely loans to total assets (LR), as we mentioned in the theoretical part of our study, the impact of this variable on bank soundness is unpredictable. Our results reflect, in particular, a positive and statistically significant coefficient for the banks analysed so we can witness that a high value of this indicator causes an increase in bank's income, with a positive impression on performance and stability. We can outline the fact that our results are in line with those obtained by Hirigoyen (1985), which argues that on mid and long-term the relationship between liquidity and profitability could be positive, suggesting that a low liquidity would lead to a lower profitability due to a higher need for loans, so an inferior profitability would not generate sufficient cash-flow to support the enlargement of its needs and it ends up compromising liquidity (by this forming a vicious circle).

On the whole, it has been noted that liquidity risk has been weakening in some of the countries because of the Vienna Initiative, of the external financing agreements with EU, IMF and IFI, of the central bank liquidity provision and its efforts to increase government bonds portfolio, representing eligible assets for refinancing operations.

Table 2: Empirical results for panel data analysis

	Coefficient (S.D.)	ES
Z score – dependent variable		
ROAE (L3)	-0.1825*** (0.0722)	+
NIM	0.5733*** (0.2117)	+
CAR	0.4657*** (0.1124)	+/-
IL (L1)	0.2878*** (0.0894)	-
CIR	-0.2237*** (0.0797)	-
LR	0.9479*** (0.2470)	+/-
BS (L2)	0.5570*** (0.2327)	+/-
GDPG	-0.6945** (0.3343)	+
INF	4.9536** (2.5709)	+/-
c	-2.3297** (2.4134)	
H test	12.94 (0.2270)	
R-sq. within	0.5517	
Banks	20	
Obs.	120	

Note: EF-expected sign; Absolute value of t statistics * significant at 10percent; ** significant at 5percent; *** significant at 1percent. In () we have standard deviations. L represents the lag level. In the case of Hausman test (H test) we have χ^2 and in parentheses we have the probability.

Source: author's calculations.

As we mentioned in the literature review, the *bank size's* (BS) impact on soundness is irregular. Our empirical results show that this variable is statistically significant in for the level of 1%, with a positive impact on bank stability and performance. Larger banks obtain a higher share of their revenue in the form of non-interest revenue such as trading income and fees so large banks appear to be relatively active on the capital markets on both the assets and liabilities sides of the balance sheet. We can also observe that in some studies the effect of size could be non-linear, with performance increasing in size at an initial level and after that declining for different reasons, in this respect we can notice the paper of Athanasoglou et al. (2008). Although, Elsas et al. (2010) conclude with the fact that economies of scope, which may denote larger size, are noticeable in banking sector conducting to a higher performance, Barros et al. (2007) suggests that bigger and more diversified banks are more likely to perform poorly, so smaller and specialized banks can reduce asymmetric information difficulties.

GDPG is an important external factor that influences banks soundness. Several studies reflect the fact that it exists a noteworthy relation between the business cycle and bank profitability, suggesting that each tightening of real GDP, especially during recessions are found to have a tenacious negative effect on bank performance. Contrary to our expectations, real GDP growth is found to have an opposite impact on bank soundness, results that agree with theory and empirical evidence that the relationship between GDP and bank profitability could be sometimes pro-cyclical. There were perceived some reasons why the effect of growth in GDP can affect bank soundness in a negative or even positive manner, for example bank credit could decrease during economic down swings (such periods are associated with increased risk). In this regard we notice some studies that found the same results as our analysis, namely, Naceur et al. (2003), Athanasoglou et al. (2008) and Munyambonera (2009).

Inflation (INF) is often quoted to be a weighty determinant of bank soundness, so the effect of inflation depends on whether banks operating expenses are increasing faster than the inflation rate level. Inflation's implication on bank performance and stability depends on the capacity of bank's management to forecast inflation, aspect suggested in the paper of Perry (1992). Our results show a positive relationship between inflation and bank's performance, being in line with those obtained by Molyneux and Thorton (1992) and also Bourke (1989).

5. Conclusions

The intensification of economic activity and of the links established between banking institutions have brought an amplification of systemic shocks, noticing their expansion to an international level and an intensification of the contagion effect. For ensuring a healthy, solid and stable banking sector the evaluation and analysis of bank soundness is crucial, so that the possible weak points and vulnerabilities can be corrected and disposed. In the literature there were few studies focusing on the determinants of systemic risk or bank soundness, therefore this study provides additional insights into the debates regarding the role and implications of systemically important banks in the European financial system.

The empirical results of our research, outlines the fact that the analysed variables had a rather heterogeneous impression on bank soundness, due to the particularities of each financial entity and to different macroeconomic environments in which banks operate. Therefore financial soundness (expressed by Z score) in the case of our sample, is significantly influenced by four bank-specific factors, namely: the ratio of non-performing loans, the liquidity ratio, the profitability ratio and bank size, in line with the results perceived in the reviewed literature. Regarding external determinants, namely banking concentration, annual GDP growth rate and inflation we observed an important influence of it in most of the banks studied, in line with the expected effects.

Noticeably, each empirical work must acknowledge its methodological and sample related limitations. First, the time-spectrum of the sample can be enlarged. Second, the study is limited to a panel regression; therefore it should take into consideration other techniques. Third, international comparisons could be introduced when certain similarities in behaviours can be encountered. Fourth, it should be taken into account new international pressures, such as the sovereign debt crisis (i.e. the case of Cyprus), issues that will generate an increase in the level of risk present in banks, affecting their stability. Consequently, future research directions are following a well-defined path, targeting an extension of the time period studied and an increased sample of financial institutions, focusing on corroboration with other econometric models in order to enhance the accuracy of the study.

Overall, we consider that the current turmoil scale is a warning signal for the decision makers and the stakeholder of the banking system in order to prevent imbalances and not the treatment of their effects; thus transparency and supervision of the imposed norms play an important role. Finally, in order to monitor and evaluate financial stability, it is essential to understand the financial system, which is extremely complex and subject to rapid changes.

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INNOVATIONS IN RURAL AND AGRICULTURE FINANCE

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Abstract: *The paper includes an analysis of the need for innovating financing dedicated to the agricultural sector and explores how innovative financing mechanisms can benefit agriculture. As a result, innovative financing has the potential to contribute to increase funding for agriculture. The objectives of exploring innovative financing for agriculture are two: the extension of solidarity taxes to agricultural development and the identification of mechanisms that catalyse private investment across the agricultural value chain. Also, the paper presents some examples of possible combinations of innovating finance mechanisms, suggesting that it is possible to adapt successful models from other parts of the world.*

Key words: innovative financing for agriculture, new resources, private investment.

JEL classification: Q14

1. Introduction

Agricultural activities are inherently risky. Highly variable incomes are particularly detrimental for farmers in developing countries, who lack access to basic formal financial services and adequate market linkages. Their limited knowledge of borrowing options and even more limited access to tools of risk management often makes highly vulnerability. Many financial institutions continue to look at the agricultural sector as highly risky, limiting lending to their mandated requirements

People living in rural areas may need access to financial services to purchase agricultural inputs, obtain veterinary services, maintain infrastructure, contract labour for planting/harvesting, transport goods to markets, make / receive payments, manage peak season incomes to cover expenses in low seasons, invest in education, shelter, health or deal with emergencies.

While they need it most, rural communities remain the largest unserved market for financial services. Ensuring their financial inclusion can unlock the considerable economic potential of rural areas. The financial institutions have avoided or failed to offer sustainable services in rural areas. Financial institutions have demonstrated a lack of interest in agriculture finance for four reasons. First, many agricultural households were located in remote parts of the country and were often so widely dispersed that financial institutions found it challenging to provide cost effective and affordable services. Second, big swaths of the agricultural population were subjects to the same weather and climate risks, making it hard for providers of financial services to hedge risks or operate profitable insurance pools. Third, service providers, mainly urban-based, simply didn't know enough about the business of agriculture to devise profitable financial products. Fourth, most small agricultural producers in developing countries had little education and little knowledge of how modern banking institutions work.

In addition, massive investment for sustainable agriculture development is necessary as the global food supply will have to increase in order to meet the world demand.

Innovative financing mechanisms are required to help meet this need for increased agricultural investment and enable farmers to raise their productivity and their own investment in agricultural through value chain approaches. We could consider as innovative all financial tools aiming at reducing the constraints limiting local or international private investment in agricultural and animal production value chains or providing incentives for such investments, hence having a catalytic effect on their development.

A wide range of innovative agricultural finance and risk management products and mechanisms is already in use in transition economies. Governments and international agencies can broaden and deepen the approaches developed so far. Approaches that have demonstrated success in some transition countries and some sectors may be extended to other countries and sectors. There is vast scope for institution-building in transition countries, focusing on: organized trading platforms that can link agricultural trade, finance and risk management; "chain integrators" that enable goods to flow efficiently in agricultural value chains; and banks capability to originate and manage innovative agricultural financing transactions.

Trading platforms are vehicles for innovative instruments. The trading system linked through a leased line or the internet can be used by a series of independent exchanges. This option has large cost benefits and enables each exchange to obtain improved access to the international trading community. In conclusion this system will make intraregional trading much easier.

Organizations can expand their investment in “chain integrators” such as warehousing companies, collateral managers, marketing companies, special purpose vehicles that service specific sectors/companies and the like.

Nevertheless, designing appropriate instruments in rural and agriculture finance can be complex. Instruments that merit special attention include: index insurance repo contracts capital market instruments, project bonds.

Governments need to create a policy, legal and regulatory framework that enables efficient use of modern financial instruments and which also includes the absence of negative actions such as unpredictable interventions in markets and the provision of a supportive framework in terms of grading and quality control, contract enforcement, taxation etc.

Financial innovation has the overall objective of using models that would mobilize additional resources to the agricultural sector and increase the participation of private institutions in financing agricultural small and medium enterprises and farmers.

2. Mechanisms for generating new resources

Although progressing, budget resources for agriculture in developing countries are severely constrained. The capacity of the poorest developing countries to fill the investment gap with their budgetary resources is limited. Moreover, resources tend, in times of financial crisis, to be more unreliable and not sufficiently predictable for the programming of long term projects. In conclusion, mechanisms for generating new resources include:

- ❖ National taxes (to be decided at the national level in industrialized, emerging or developing countries): for instance, the tax on fertilizers and pesticides, small rate taxation on fertilizers and pesticides consumption in G20 countries; Tobacco tax, excise duty on Tobacco consumption in southern countries to finance prevention of addiction and conversion of cultivation; the tax on financial transaction, supported by several European countries, could be partly used for financing food security in developing countries; a tax on fats and sugar products, already existing in some countries (USA) could be partially used to finance nutrition actions in developing countries.

- ❖ Voluntary contributions which could be applying, by consumers, by firms and employees and/or by food and nutrition correlated industries. Lotteries can also be considered (using national lotteries incomes for financing the agricultural sector).

- ❖ Allocation of funds generated by the carbon emission allowances auctions in the European Union Emissions Trading System (EU ETS). It is expected that about half of the emission allowances will be auctioned, thus generating revenues for European Union member states. A part of these resources could be used for investing in agriculture and food security projects in developing countries, as agricultural intensification, if properly managed, reduces the pressure on deforestation and participates to climate change mitigation at the global level. Projects aiming at increasing resilience to climate change in developing countries, such as irrigation projects or research on drought resistant varieties could also be considered.

- ❖ Migrants’ remittances represent considerable financial flows from industrialized developing countries.

3. Mechanisms for catalysing private investment

A number of tools can be identified to make investment in agricultural and food value chains more attractive and to reduce the high level of risks associated to agricultural investments.

- ❖ Risk management tools such as index-based weather insurance, compensate the subscriber for a production loss when a reference index, for instance rainfall level, is not reached; and guarantee funds, which reduce banking risks by granting a partial guarantee on a bank’s loan portfolio.

Weather insurance

Traditional crop insurance schemes, based on individual yields and field inspections, can be very costly to administer in developing countries; this problem, can be avoided with market based weather risk management. They are based on weather indices such as rainfall and temperature, rather than actual farm losses. They can be used to protect against catastrophic risks, or to protect against normal, day-to-day operational risks. Agricultural banks can bundle weather risk management with their loan packages or they can insist that lenders take out weather insurance with the eventual claims payable to the bank, or they can insure their agricultural loan portfolio against weather-related default risk.

In addition, the idea of reinsurance mechanism has been launched by the Thomas More Institute (report “finance development”). This report proposes the creation of reinsurance funds to cover the natural risks, in order to enhance the operating capacity of the insurance companies.

Guarantee funds for bank credit

The reluctance of banks and other financial institutions to finance the agricultural sector, due to the perception of excessive risks, is one of the major drawbacks for agricultural development in the developing countries. The idea to reduce banking risk by granting a partial guarantee to banks, designed to cover a portion of the risk without relieving the banks from their credit responsibility, has been tried and launched at different occasions in the agricultural credit sector in developing countries.

- ❖ Innovative credit tools, such as warehouse receipts, which permit use of stocks as collateral for credit and prove to be an effective way to channel financing into value chains.

Warehouse receipts

In its more elaborated form, the mechanism consists for the producers in storing their products in a warehouse against the delivery of a warehouse receipt. The products can be used as collateral for a credit by a bank or a micro-credit institution. The credit is repaid when the product is sold or withdrawn from the warehouse. This type of credit can be sophisticated and combined with other financing mechanisms such as forward sales, insurance, sale contract indicating that payment has to be made to the bank which has extended a credit to the producer. Such combinations of mechanisms contribute to seasonal secure credit and make it more accessible to farmers.

- ❖ Public-private partnerships with appropriate institutional and financing arrangements could help leverage funds from the private sector to finance the infrastructures needed for the development of agriculture and value chains. Efforts should be focused on building resilient and inclusive financial systems.

❖ Smart subsidies

Input subsidy programmes linked to financing schemes for purchasing inputs would require lower subsidies and simultaneously encourage the development of financial services in agriculture.

- ❖ Migrants’ remittances can also be considered as existing capital that may be channelled into agriculture.

4. Examples of possible combinations of innovating finance mechanisms for value chains.

❖ Wienco’s maize project in Ghana

This maize project was launched by a private input supply company, Wienco, in Ghana in the mid-2000s: Wienco provides small farmers, grouped in associations, with technical advices and quality seeds and fertilizers, allowing yields of 5 tons/ha (as compared to traditional yields, which do not exceeded 2 tons/ha). The supply of inputs is financed by a bank credit guaranteed by Wienco. After harvest the maize is collected by Wienco (a small proportion of production can be kept by the farmers for their own use). The contract sets a minimum selling price. Through hedging on the future market, Wienco eliminates the risk of a fall of in the world price of maize. The repayment of the input credit is done by deduction from the proceeds of the sales paid on the farmer’s bank account.

This project is clearly a win-win operation: it allows producers to more than doubling their maize production, and, therefore, their income. Wienco makes profit on the distribution of agricultural inputs (its core business), and on the processing and sale of maize to feed producers.

❖ The ESOP model in Togo Burkina Faso and Benin

This program, promoted by two NGOs, CICR and ETD, aims at linking processing agribusiness for urban supply (mainly for rice, but also for soya beans) to farmers organizations. It’s implemented in Burkina Faso, Togo and Benin. The agribusiness enterprises are created as joint ventures between private individual’s operators and farmers groups (the share of the farmers groups in the capital is often paid by grant of the project).

The agribusiness provides farmers through a farming contract, with improved seeds and other inputs on a credit basis, which is made possible by the close linkage existing between the farmers groups and the agribusiness. The input supply credit is financed by local banks, usually under specific credit lines.

The farmers are paid for their produce upon delivery at the agribusiness warehouse, eventually through a system of warehouse receipts. The selling price is set in advance. The repayment of the input supply loan takes place upon delivery of the produce to the warehouse.

❖ A credit operation for cotton producers in Argentina

With support from the Government of the Province of Chaco and Sancor Seguros, a local bank from Argentina, BICE has established for the 2010-2011 season a fund for cotton producers (individual farmers and cooperatives).

This fund is based on two principles: producers sell their crop to the fund under a contract specifying the date of delivery and price; crop is insured against climate risks. With this future production as collateral, the fund borrows on the capital markets, and bonds are insured against the risk of non-delivery of the crop or default of buyers.

Funds are on-lent to farmers to finance the purchase of fertilizers and seeds for the cotton season. Producers pay back their loans either by selling their crop to a third party and the using the proceeds to pay back the credit (when the spot price is higher than contract price), or by selling their produce to the fund which in turn sells it to a pre-identified buyer, i.e. the Union of Agricultural Cooperatives and the cotton company, Buyatti. This fund is also noted by rating agency Moody's, which increases its credibility.

❖ Developing the honey value chain in Ethiopia.

SNV Ethiopia ("Stichting Nederlandse Vrijwilligers" - Foundation of Netherlands Volunteers) promoted the honey sector development through the BOAM programme, with financial support of the Embassy of the Kingdom of Netherlands (EKN). The upgrading model was to create a well-developed Ethiopian honey sector that is globally competitive for its high quality of processed honey and beeswax, with increased production and productivity and improved quality that would create employment and increase incomes for rural households.

The following case of BezaMar PLC illustrates the achievements of the BOAM program with a concrete experience of one of the honey processors.

One of the success factors in the development of the honey value chain was the availability of strong local leadership. As one of the pioneers in the value chain, Mr. Hailegiorgis Demissie, owner of BezaMar PLC, was instrumental in inspiring other chain actors. At the Apimondia apiculture trade fair in Dublin in August 2005, Mr. Demissie met importers from EU countries and learnt more about the international honey market. He was surprised to see the success of Zambian honey exporters and wondered why "As main producer of honey in Africa, Ethiopia is not benefitting from the export of honey to the EU, while Zambian exporters can?" Upon his return, he started to pursue this opportunity. After assuming the chair of the Coordination Group, he brought together other processors to establish the Ethiopian Honey and Beeswax Producers and Exporters Association (EHBPEA). With BOAM's organisational and financial support the association hosted the first international apiculture trade fair in Ethiopia. He enthusiastically pursued the EU Third Country Listing process in 2008. As soon as the EU third country listing was approved, BezaMar became the first processor to export table honey to the EU, increasing its share of organic table honey exports from 30 tonnes in 2008 to 150 tonnes in 2010. To respond better to the export market requirements, BezaMar pioneered ISO and HACCP certification expanding market opportunities and leading the way for other processors to follow. To be able to assure a reliable quality supply of honey, BezaMar with technical and organisational support from BOAM and a financial grant from the business innovation fund tested the establishment of 349 out grower relationships in 2007/2008. This was accompanied by skills improvement training for beekeepers aimed at increasing the production of quality honey. The services provided to out growers also improved with the company using a bank loan to provide inputs such as hives and other materials on loan to beekeepers. As a result of a mix of productivity increases and price incentives, BezaMar's out grower network expanded to nearly 1000 beekeepers by 2010.

The provision of technical support to beekeepers and producer organisations also led to significant quality improvements. One of the main factors in honey quality is the moisture content; raw honey containing high moisture levels requires more processing and incurs higher labour and energy costs. Through improvements in the quality of honey delivered to BezaMar, processing costs went down by 0.36 US\$ per kilogramme.

The savings were passed on to out growers who now received an additional 30 to 50 US\$ cents per kilogramme. Annual household incomes from beekeeping went up from 92 to 152 US\$ on average, per household (2008). Additional participation in trade fairs has enabled BezaMar to expand exports to the US market, where it promotes the specialised honey brands Tropical Forest, Blue Nile and Lalibela. With five more processors (Tutu & Her Family, APINEC, ALEM, DIMMA and COMEL) following BezaMar's example, Ethiopian honey exports have risen steadily over the years. Between 2008 and 2011 over the 8000 out grower beekeepers supplied honey to the 6 processing companies for table honey of which 400 tonnes was exported.

❖ Lending against warehouse stored cheese as collateral.

During the process of ageing of Parmesan of over 24 to 30 months, the cheese maker incurs a number of costs and expenses. To meet the expenses, banks lend against cheese as collateral.

Typically, a cheese maker who deposits 25% of his production (or say 2,000 wheels out of a production of 7,000 wheels) in a bank warehouse gets a certificate against which he receives 60 to 80% of the value as loan. At €300 (Rs 21,000) for each wheel, the value of the cheese collateral could be €600,000 (Rs 4.2 crore) and then the bank could provide a loan of €420,000 (Rs 2.94 crore). Sometimes, the cheese maker may decide to sell the title to the cheese (certificate) to a distributor, while the cheese is still in ageing.

Credito Emiliano offers loan to an extent of 80% of the value, based on prevailing market prices, for as long as 24 months or the time it takes Parmesan to age. The bank loans are offered at the Euro-Interbank rate plus 0.75% to 2% points.

When the loan period is about to expire, the cheese maker either reimburses the bank or lets it sell them at market prices. After recovering its investment, it then returns any difference to the producer. Thus, in Italy, the financing against cheese as collateral is considered a low risk activity by banks.

Cheese makers see finance against ageing Parmesan as collateral a great way to finance buying of milk at convenient rates. They feel that financing is necessary since it is a high value product (with 550 litres of milk going into making of each wheel followed by two years of ageing). Farmers agree that the financing against cheese is important to them and it is helping them in times of economic crisis or falling prices.

❖ Reaching Small Farmers through Innovative Finance in Pakistan.

In 2001, NRSP (National Rural Support Program) designed a research project to address the issues of access to finance and advisory services to small sugar cane farmers. The basic idea was to create an “out of box” microfinance model that threads together the small farmer, the MFI and the processor into a high impact value chain with high financial and social returns. The project “Sugarcane Production Enhancement Project” (the SPEP) focused on small poor farmers with a maximum land holding of around three acres, as well as share croppers and farmers who generally rent agriculture land from large land lords.

In this model, 1800 small farmers were organized by NRSP and each one provided a loan ranging from PKR 7,000/- to PKR 10,000/- per acre for input purchase. A separate institutional mechanism was set up to provide modern advisory services to enhance the per acre yield. Soil was tested to set up a bench mark. The farmer was only allowed to use the loan once the advisory services recommended what to do next. At the same time, the sugar mill signed an agreement with NRSP to buy back all the product of the small farmers and pay cash as soon as the farmer brings his product to the mill. The mill was also obliged to deduct the loan and the service charge at source.

The contribution of small growers to overall sugarcane supply reached to 11.5%.

The small farmer benefitted from high incomes because of improved yields; the sugar mill from getting high quality yields which lead them to plan for expansion of their factory; the NRSP MFI by getting recovery of their loans at source. Most importantly this tri partite collaboration benefitted small farmer because investments were made in developing infrastructure irrigation, and technical guidance regarding seed and farm equipment. The SPEP project is now operational in 44 union councils of Rahim Yar khan with registered small holder farmers.

Today, 15% of sugar mill supply (after extending production capacity of sugar mill) is provided by community organizations those organized by NRSP, who are now able to obtain a yield of around 32 tons of sugar cane per acre than impacting growth of income by 80%.

NRSP’s impact financing model can be a breakthrough in microfinance lending especially in the agriculture sector. The model can be adapted in any developing economy and in diverse cropping patterns like cotton, rice, even livestock etc. All it needs is a tri partite collaboration between the processor, the MFI and the small and poor farmers. The returns are significant for all and perhaps this model can be one option to break the generational bondage between the small farmer and the shop keeper which continues to be in place in many developing economies.

The case studies indicate that banks and financial institutions should better invest in understanding agricultural activities and should segment farmers in order to understand what they need. Financing agriculture is more effective when it is part of a broader package that combines both financial and non-financial services to the farmers with the objective of improving yields and quality and ensuring access to markets for selling their produce. Also, the risk management is an important element. Insurance and risk-sharing arrangements can increase the bank’s level of comfort and enable them to increase their reach to more farmers that would otherwise be on the margin of the decision to lend. Moreover, the model cases

show the need to forge partnerships between various private sector actors along agricultural supply chains, as well as between private and public sector institutions.

5. Conclusions

Better understanding of the local context and the environment in which farmers operate can provide unique solutions on how to provide financial services with lower risks and lower administration costs. Lending to farmers, particularly those with potential to become more productive, can contribute to higher incomes and push farmers up the pyramid from subsistence or semi-commercial farmers to commercial farmers. It can drive rural economic and social growth.

We can conclude that many innovations in financing for agricultural sector already exist. Many of the innovative models are still relatively new, but through time and the use of appropriate systems to monitor and evaluate their achievements, we will be able to draw more complete lessons that can help in scaling up and replicating them.

It can also be concluded that no single innovation can be considered the miracle solution. Observations from the innovating models show that success takes patience, careful planning, understanding of the local context, and attention paid to details during implementation.

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THE CHALLENGES OF EUROPEAN INTEGRATION FOR THE BANKING MARKET IN ROMANIA

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Abstract: *Early 21st century marks the turning point for the banking system in Romania, this was the end of a decade of reforms and of multiple crises that have characterized the formation of the banking system of post-Decembrist Romania. Otherwise over the past two decades, the economies of the countries of Central, Eastern and South-Eastern Europe as a whole, have made substantial progress in transforming their banking sectors to a specific system of socialist system to a specific system of market economies.*

Key words: Finance, Financial Crisis, Globalization, Intermediation, Banking Crisis

JEL classification: G21

1. Introduction

Early 21st century marks the turning point for the banking system in Romania, this was the end of a decade of reforms and of multiple crises that have characterized the formation of the banking system of post-Decembrist Romania. Otherwise over the past two decades, the economies of the countries of Central, Eastern and South-Eastern Europe as a whole, have made substantial progress in transforming their banking sectors from a specific system of socialist system to specific system of market economies.

At these times, decisions on reforming the banking system in Romania will take as a landmark the desire for integration into the European Union and will result in radical changes to special legislative system of the financial banking system by taking specific European legislation in this area, we will witness an unprecedented development of the network of regional banking units and also we will witness a large increase in the ownership and management of the european financial and banking system in Romania.

With a population of over 500 million and a PIB of over 11,000 billion EUR, the European Union (EU) is one of the leading actors on the world stage. It represents more than a fifth of the volume of world trade. It ranks first in the world in the export of goods and services and a major source of foreign direct investment, as well as and the main export market for a number of over 130 countries around the world. The EU has the largest integrated market in the world economy and foreign exchange reserve currency in the world.

2. Assessing the integration of banking systems

In assessing the integration of banking systems there were several approaches, among which we mention:

- addressing cross-border banking mergers in fact defined by the absence of such deals in comparison with the number of domestic mergers;
- another approach are integration analysis starting from the analysis of the convergence of interest rates.

Some authors have reviewed this issue from the point of view of corporate and mortgage credits, analyzing the convergence of interest rates over a period of five years. Other authors shows that in the eurozone "price" has a greater dispersion than in Italy and reached the conclusion that "euro area prices seem different, because national banking products seem different or because they are differentiated according to national factors". However, some authors consider that the dispersion of interest rates may be completely independent of the banking integration;

-newest analysis approaches to integration are those relating to the convergence of banks ' profitability. By the way some authors consider profitability and capitalization of banks as a factor of integration not only but also tools that ensure a safe and stable situation.

The common element of these approaches is the concept of convergence. It can hold two approaches:

-convergence is a dynamic process at the base of which is the implementation of socio-economic policies designed to reduce differences between regions and countries in a certain space. It is achieved mainly through structural policies with the aim of obtaining the parameters of economic growth accentuated in peripheral regions (so not as a geographical location but also to equip with the factors and their use in economic performance) that have come during a period of economic decline or have not managed to achieve the economic performance of the area;

-convergence approach by linking increasing similarities and economic performance of the regional and national economies within in a certain space.

Although the risk is often associated with uncertainty, the distinction between the two notions is addressed early in the last century by Knight, is the specific situations and uncertainty as to future events, assuming ignorance of their evolution into the future, even in the form of probability. Unlike the uncertainty, risk implies the knowledge of these probabilities.

Knight's theory is supported by Kuritzkes and contemporaries Schuermann (Kuritzkes and Schuermann, 2007), which defines risk as the potential adverse deviation from the expected results, similar to the approach definition of the risk capital markets which defines risk as the probability of loss that can be considered either as an actual capital loss, either as a failure in achieving a certain hope of gain. Banking risks in dealing in contemporary age must take into account the variety of risks and increase their extent which were determined by the innovation process and the phenomenon of globalization. Although the notion of risk is one of very high current, it becomes increasingly less clear, more complicated and questionable. The need for a risk management system more efficient seen as urgent, along with the development of additional rules for the banking system to be better prepared to manage the new challenges stemming from the crisis. One of the theories of modern defines risk as a deviation from expected earnings or equivalent earnings volatility, according to her, the Bank risks are divided into two broad categories: non-financial risks and financial risks. Financial risk is the direct result of the role played by banks as the financial intermediary or investor. The second category of risk is common to all economic operators, by virtue of its being non-financial.

3. Identifying and assessing risks in the banking system in Romania

In identifying and assessing risks in the banking system in Romania we considered the structure of financial risks and non financial as an appropriate analytical structure, addressing:

- credit risk;
- market risk ;
- liquidity risk;
- operational risk.

Identifying and evaluating risk assessment that risks making it through the offices of theoretical concepts and practical methodological issues in the practice of commercial banks in Romania. modeling a banking business plan must be carried out in close conjunction with the aim pursued by the management. If the Manager proposes doubling profits in consequence will assume a higher risk, and if it proposes a development strategy based on minimizing risks, profits will be lower but safe.

We would not have succeeded if we had avoided the progress at risk. History has shown us that the major accomplishments was always taking risks substantial in one form or another. In place to avoid the risk (which is impossible) should develop a more thorough understanding of how we can transform the potential negative results in opportunities.

Risk management don't analyse what went wrong after the fact is true-it is not an ex-post analysis. It is a process by which the risk becomes transparent. Involves searching for new risks, and manage their measurement. You don't have to keep in mind a reply only in respect of risk-risk management is the cyclic process to learn with more distinct phases : identification of risk and risk assessment, which is a component of the Executive, and the reaction to the risk, which is a component of vision.

Analysis of the risk indicators, early warning systems, scripts or any other instrument, should lead to an appropriate and rapid response to the Bank's management. From the analysis of these issues, the result of management decisions impact on a portfolio of loans, decision based on the use of early warning indicators. Correct use of tools may cause a reaction. The lack of correct decisions based on appropriate tools may cause losses. Not necessarily lack of reaction but even belated reaction can result in consequences for the banks, to the aid of intervening decisions increasingly more statistical modeling.

Any entity survives in the environment are interdependent internally and externally which, as a result a company exists in relationship with others. From this point of view the two major trends in the development of a business model at the beginning of the 21st century: developing a sustainable business and corporate governance.

In order to obtain greater efficiency, especially in integrated markets as the European Union specific, banks are obliged to be attentive to the very best practices. But at the same time increasing competition in these markets leads to increased risks, and hence the regulatory authorities ' practice of giving a more prominent role in regulating prudential capital adequacy. As a result of the natural concern

of authors appeared in studying the impact of these assumptions, the impact of capital efficiency and operational models of business in banking systems.

4. Modeling business banking strategy

From the analysis of general trends have resulted in modeling a strategy for business banking is analyzed the modeling of business depending on the position of risk of a bank. You can select those models that are dynamic, have in mind the description of past and future forecast, taking into account, in relation to the banking system, the balance sheet, the financial outturn forecast, forecast the movement of equity.

You can determine a method of analysis based on the success factors of a business model integrating factors of bank profitability-and specifically ROE. By the way the average income and deviations of the ROE, involving an analysis of market shares depending on the value of credit portfolio of the Bank, each company are the basic elements of the EWS system used by central banks in prudential supervision systems of banking systems

Risk culture of the organization starts from management. If it means to define and lead the Organization's risk appetite, then it needs an executive leadership team with strong expertise in business and risk. Management must be able to evaluate risks.

To build a culture where risk management should be viewed as an enabler of business mobilizing factor supposed to start with what at least two general steps: designing a profile of risk and constant communication.

Top management and sales force must to characterize as a line of defense that is based on healthy: sustainable recovery risk thinking; relevant information, the risk-related; compliance with the limits and other basic methods of control.

The main challenge is how can a bank to accelerate business development and also to provide a risk management performant whereas successful bank is the bank that integrates these concepts in his strategy. The entire organization to possess the same scale of values and to act in the same sense.

Since 2000, Romania has seen a strong economic growth, (although volatile due to agriculture), averaging 3.8% between 2001 and 2007. However during this time the necessity to change the pattern of economic growth to an increase based mainly on consumption to one based more on investment and exports, as well as necessary an adjustment of consumption .The average growth of 6.1% in that period is 3 times higher than the average performance of the UE was of 2.1% over the same period.

In this context the development of the Romanian banking system with a special performance at the ROE, this entails a risk associated with the given concept that assuming a larger profitability entail a higher risk, and assuming a profitability lower result and assuming a lower risk.

The above approach can be simplistic but one analysis involves a consideration of the fact that the period 2000-2008 meant a period of radical change in the Romanian banking system taking into account at least the following aspects:

-Romania's economic development has led to an increase in Bank intermediation process (although at a reduced level compared to other EU countries)

- has been a significant increase in Bank network (increasing the number of banking agencies-which has assumed a significant increase in the number of employees in the banking sector and the development of the management skills of such banking networks);

-the European integration process and roller steps up to the date of accession has fundamentally changed the legal basis of the banking system and the role of the Central Bank

In this context, in 2008 and the world crisis is triggered, at which point the need arise discussing again global business model of commercial banks in general and in particular risk management. The more this topic remains open in one case as it is in the process of integration into the EU, and the EU discuss some of the best banking systems in the world, with best practices including in risk management, among which we can mention:

-rethinking organizational structure of credit departments;

-custom segmentation support a culture of risk within the correct sales force

-external audit;

-develop business plans according to the major trends at the beginning the 21st century.

Business models of commercial banks has influenced not only by geographical area but also of the current context, determined by:

-the current world crisis;

-technological innovation (both hard and soft).

By the way significant changes in the business environment, economic volatility, changing expectations of clients and staff, as well as the adoption of new technologies make it increasingly difficult for banks to discover technological alternatives, strategy and priority technological investments; -globalization.

These have been identified and analyzed the influences caused by:

- the geographical and historical context, determined by the geographical position of Romania;
- taking the legislative European model, from the perspective of banking, over a period prior to the process of European integration, at European level-the existence of models of financial institutional banking organization;
- the existence of European banking axes (North and West) with different approaches in terms of banking business (profitability approach in terms of the cost of the North in terms revenue on the West's shareholders and management) from Europe (with specific influences including specific risk areas of the culture in which it arises);
- international banking regulations and specifically European ones in principle Basel Committee rules which, according to studies, will be taken at the global level, while European regulations applied only to commercial banks in Europe may lead to differences in competitiveness compared with commercial banks in other regions of the world.

5. Conclusions

In terms of bank rules, according to specialists:-any new regulations must be applied from one end to the other of all institutions of the system, not just those who would pick up a seismic risk, significant systemic financial company. A selective application of the law would be a mistake because the financial intermediation will be moving from the largest and most institutions subject to smaller institutions and less regulated and diminishing the principle of self-regulation; the idea that regulators may establish general principles, according to which financial institutions can find a single way to comply;

-possibility to watch European banking regulations, including that of European banking, Authority as an opportunity in perspective of improving the structure of bank balance sheets, to adapt business strategy according to the availability of resources, adaptation of banking products and services on customer segments and depending on the Bank's balance sheet impact;

In view of the multiplicity and complexity of the factors of influence on the business model of commercial banks, commercial bank management vision guidance regarding business model applied in practice in terms of principles and values, among which we can mention sustainable business and developing a business application of the principles of corporate governance;

In the context of European integration:-finding alternatives for bank capitalization in a bid to lessen its dependence on resources from the "parent" banks, reducing in this way the possibility of contagion from countries with major problems. One of these alternatives can be determined by a policy of management of commercial banks in the direction of a sustained profitability (considering the current rules on the capital adequacy the existence of a profit of EUR 50 million to create the prerequisites for further exposure of approximately EUR 450 million, which may lead to an increase in business for a commercial bank);

-the use of performance indicators and risk management vision, adapt or ROA use ROE in determining the level of performance. In fact the average income and deviations of the ROE, involving an analysis of market shares depending on the value of credit portfolio of the Bank, each company are the basic elements of the EWS system used by central banks prudential supervision of banking systems;

From the perspective of risk-management processes and workflows change banking activity in the direction of simplification and efficiency gains, including their standardization. This can create the premises for a profitable activity for correct management decisions based on rapid tests (using information systems) caused by high-quality inputs in view of simplification including hierarchical structures;

-credit risk: the risk of cost management through the development of appropriate policies for recovering the arrears using including European practices in this regard, the establishment of appropriate early warning indicators (trend of arrears from 30 days to 6 months delay in granting; implementation of computer software that based on the analysis, the analysis of customer service for the analysis of the various incidents of payments to classify priorities or signals on "customer behavior" causing the possibility of measures of time); perform qualitative analysis relating to loans in default for determining the factors that influenced the decision to loan (made possible by computerization activities, introduction of credit scoring systems for IMM, including information not just for individuals)

-market risk: the use of different scenarios and tests of interest rates and the exchange rate for time intervals of 1, 3, 6 months and adapt them according to your daily activity and not just on a semi-annual basis; the use of VaR method for the determination of possible daily losses;

-liquidity risk: special attention to loans/deposits ratio optimal use of this report as an early warning indicator;

-operational risk: introduction of quality indicators, including employment package (operational errors, returns for credit applications, which can generate delays and may affect the relationship with the customer, regarding the quality of clients' opinions-waiting times, the quantity and the clarity of information received, the transparency of costs of maintenance activities; and protection of customers, etc.).

Attention is paid to aspects of internal and external fraud: the use of early warning signals, including and in this regard (report number, for example reversal of these operations of total can indicate the existence of a fraudulent, fictitious transactions by making cash deposit which will influence the balance of home and reversal of these operations at the end of the day, through this kind of operations can hide deficiencies); development of special anti-fraud departments at the level of commercial banks.

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HUMAN CAPITAL DEFINITION AND CATEGORIZATION

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Abstract: *The aim of the present paper is to provide an overview of human capital concept from a theoretical perspective. In this regard, the paper demonstrates that it is possible to analyze existing definitions and classifications of human capital in order to create a conceptual framework that can be used by further researches in the field. The evolution of human capital concept illustrates the contribution of academic researchers in the development of the field which help us to develop a categorization of human capital.*

Key words: human capital, economic field, concepts, definitions, evolution.

JEL classification: M19, M49

1. Introduction

Introducing the reader into the knowledge of human capital field by setting the conceptual foundation thereof, represents a major step towards understanding this type of capital, both for practitioners and researchers. Even more so, a special interest has been manifested lately by researchers from various fields of expertise (Choong, 2008; Campbell & Rahman, 2010; Khan & Ali, 2010; Vafaei *et al.*, 2011; Sharafi *et al.*, 2012) driven towards the importance given to knowledge, investment into an entity's "immaterial elements" and "cognitive areas" wherein ideas matter and create value for the entity.

Due to the heterogeneous character of human capital, this paper is intended to accomplish an epistemological reflection onto the concept, by means of developing its conceptual framework, which in turn will allow us to discover the actual stage of knowledge in terms of human capital evolution and mostly, from an economic perspective.

Following a short history of the concept of human capital in economic thought (Section 2), this study develops a categorization of human capital with references to the literature (Section 3). Section 4 contains the conclusions.

2. Human capital backgrounds

In contemporary times, the majority of social sciences disciplines are interested in the concept of human capital. Such pluridisciplinary interest is the result of a mass awareness process, both from individuals and entities, on the fact that human capital ensures security and success (OECD, 1998).

The first definitions associated with the concept of human capital (Mincer, 1958; Schultz, 1961; Lev & Schwartz, 1971) derive from the definition proposed in 1930 by Irving Fisher, according to which, capital is the use of current business. Starting from this idea, the literature developed a large number of definitions for this concept that we will present selectively throughout this section of the paper, based on the representativity criterion.

The concept of human capital is used in economics for at least 30 years (Schultz, 1961; Becker, 1964), William Petty (17th century) being the first economist that had underlined the differences in quality of labor force and identified what later on would be called „*human capital*”. In the knowledge economy, the notion of human capital is the main object of this discipline. The idea of human capital and its importance for economic development has been developed by Adam Smith and Alfred Marshall, which stated that “*the most valuable component of intellectual capital is the human capital*” (McPhail, 2009, p. 807).

Despite this new approach, economists following Smith have neglected to study this particular type of capital, believing that those elements decisively contributing to an entity's increasing wealth are in fact equipment, lands, buildings and other similar goods, as well as their related investment. It took economic science almost two and half centuries to return to Smith's opinion that investment in individuals' knowledge and skills bring profit and participate directly to a nation's enrichment (Mursa, 2006, p. 220).

Chamak & Fromage (2006) stated that the term human capital refers to the sum of professional training costs and opportunity cost related to such activities. By investing in their education and training, individuals develop their available human capital, becoming able to obtain well paid jobs. On the labor market, the high level of studies and professional training generally determines higher salaries, many

benefits and low unemployment rates (Mincer, 1974).

In the accounting environment, human capital is regarded as a representation of employees' potential to generate more future "wealth" for an entity, determined by the value of surplus gains already generated by other physical and financial assets of the entity (Vithana *et al.*, 2011, p. 555). The same way, Lev & Schwartz (1971, p. 104), regard human capital as a source of gain "incorporated" into a person, in the form of his/her brute force and natural or achieved components. According to them, the employees related current expenses do not directly influence their potential, and the special programs and expenses thereof (i.e. training, development) may increase this potential, since such expenses are achieved in the hope of obtaining future profits (Vithana *et al.*, 2011, p. 556).

The key to any entity's success on the market is the stock of human capital (Flamholtz *et al.*, 2002). Just like the physical or financial capital, the human capital contributes to the economic development and growth of an entity. As a result, any expense related to training, development or support of human resources is more likely an investment than a mere expense (Ballot *et al.*, 2006).

From a management point of view, the human capital is a stock that can be created, developed, accumulated and used, as it is a capital of particular character, represented by skills and competences which are different from one individual to another (Guillard & Roussel, 2010, p. 166). It also represents the individual's property and not the entity's; nevertheless, certain authors consider it asset element (Walker, 2001). This aspect is one of the most controversial, if not the most controversial topic, debated in the literature. Contesting the supposition that human capital should be acknowledged as an asset bases on several reasons (Guillard & Roussel, 2010, p. 167):

- The entity cannot hold property rights over the employed individuals
- Employees' decreasing loyalty and commitment towards the entity contests the "informal property" affective in nature that the entity would have over employees.

Laroche *et al.* (1999) suggests a more generalist approach of the traditional definition of human capital, proposing that it be defined as an ensemble of innate skills, knowledge and competences that a person would acquire during his/her lifetime. According to Kassoua (2006), such a definition is important for the understanding of the nature of human capital. The innate capacity means no cost, either for the individual and the society in general, while the education and trainings imply a cost of updating potential abilities (Kassoua, 2006, p. 159).

According to Abeysekera & Guthrie (2004, p. 253) and Martins & Lopez dos Reis (2010, p. 2), the human capital refer to a combination of factors owned by individuals and the collective labor force of an entity. It includes knowledge, technical skills and competences, personal features such as intelligence, energy, attitude, imagination and creativity, willing to work in a team and to consider important the entity's objectives. By means of these elements representing the "dowry" an employee makes available to the entity, both the employee and the entity benefit from various quantifiable advantages.

3. The state of the current categorization of human capital

In setting a defining framework for the human capital, an entity should initially identify the main dimensions thereof. According to the literature (Chadbury & Roomi, 2010), it would be recommended that the definition and categorization of human capital have three different approaches – *economic approach of transaction costs*, *approach based on entity's resources* and *human capital approach*. The first approach supposes that an entity hiring personnel in the most efficient way possible, either by recruiting new personnel, or by developing existing personnel, would confront with two types of costs: hiring costs or personnel development costs. According to this approach, the entity is forced to chose the economic option resulting from the comparison of the two costs, meaning that the human capital would be characterized as specific or uncertain (Chadbury & Roomi, 2010, p. 180). According to the second approach, the most competitive entity is the one holding most advantageous resources and the knowledge to best exploit them (Bessieux-Ollier *et al.*, 2006, p. 5); the basic competences of an individual are the entity's competitive advantage that need to be trained and developed internally, as the human capital requires attention and investment from the entity. The description of human capital is done in terms of investment in the formation and development of employees' knowledge, with a double character: gaining specialized competences and non-transferability (Chadbury & Roomi, 2010, p. 180).

The literature proposes diverse classifications of human capital based on the above approaches. Based on the approach proposed by Mayo (2001), we identify the following components of the human capital:

- Employees' capabilities expressed by education, professional competences, experience, attitude, values, ideals;
- Employees' development potential;

- Employees' motivation and engagement;
- Employees' innovation capacity.

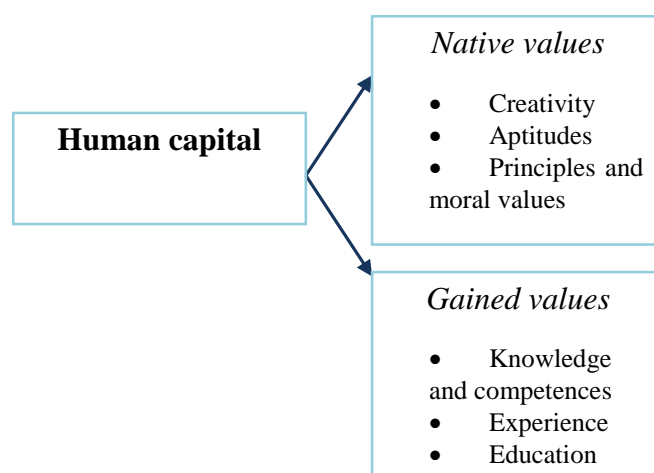
Unlike Mayo's approach (2001), a series of researchers (Guillard & Roussel, 2010, p. 162, Gibbons & Waldman, 2004; Hatch & Dyer, 2004) split the human capital into three main categories, as follows:

- *General human capital*: generic knowledge and competences (capacity for analysis, intelligence in certain situations, etc.) accumulated from professional experience and education.
- *Entity specific human capital*: competences and knowledge learnt from an employee, based on the collective knowledge specific to a certain entity (for instance, the organizational capital). Such type of capital is based on the idea that at the time an employee having a high level of human capital would leave the entity wherein he had developed this capital and go to another entity, a large portion of this human capital will be impossible to use in the new entity, because its needs and expectations would be different from the previous entity.
- *Action related human capital*: competences that are specific to a certain job.

Guthrie & Petty (2000, p. 246) provide a slightly different categorization of the above mentioned elements, dividing the human capital in (1) know-how; (2) education; (3) vocational qualifications; (4) work related knowledge; (5) work related competences and (6) entrepreneurship. Pena (2002) believes that human capital is an accumulation of personal attributes, such as knowledge, abilities, personality, health and others, allowing human resources the possibility to function, based on three elements: entrepreneurs' level of education, experience and self-motivation.

In our opinion, human capital is represented by this whole of native values and values gained in time by the employee, including creativity, aptitudes, moral values and principles specific to each of them, as well as the knowledge and competences accumulated by the employee by means of education, experience and attitude (Figure 1).

Figure 1: Human capital categorization



In order to highlight the interest and importance of these components of human capital we will shortly introduce them henceforth.

Creativity

Creativity covers the entire range of activities within an entity, generating value for the stakeholders and satisfying incomes for the entity (Campbell & Rahman, 2010). The results of using creativity are especially the products and services supplied by the entity. According to Modiga (2009), the human capital is “*the practice and intuition of a team of chemists discovering a new medicine valued at millions of dollars, it is the workers ability to innovate, the power of the collective mind*”. By developing their creativity and innovation spirit, any individual can gain significant benefits within an entity, especially in those entities relying on creativity and intuition. The issue raised by creativity is the limited number of entities wherein an individual can affirm such characteristic. Not all entities require creative or novelty-oriented employees. There are certain entities that base their hiring process on the premise of taking in creative personnel in order to ensure their continuous activity, such as pharmaceutical companies, IT companies or other industries based on creativity.

Aptitudes

The aptitudes available to an individual are part of the human capital, just like creativity. According

to the Encyclopedic Dictionary, an aptitude refers to *the individual's psychic ability that conditions the completion in good conditions of a certain work or action*, synonymous with terms such as capacity, ability, vocation or inclination towards a certain activity (Encyclopedic Dictionary, 1993, p. 92). These innate values are the advantages differentiating one individual from other individuals, and also pay back in a different way. An individual is born with these values, and throughout his/her development as a main character in the economic life of an entity, by means of permanent exercise, the individual can improve these qualities.

Principles and moral values

Some of the highest priced innate values people might pose are their moral principles and values by which they live every day of their life. In an entity, any individual should first of all consider their personal convictions based on which they create an ethical foundation in order to ensure individual, social and professional success. According to Amartya Sen (1997), there is a certain asymmetry between business principles and moral values in an entity's economic analysis. Business principles are considered to be rudimentary (limited, directly or indirectly in terms of profit maximization), while moral values are believed to be rather complex, involving various types of ethical systems, without any real influence over economic behavior (Sen, 1997, p. 5). We are dealing here with an increasing importance placed on such values, behavioral elements and the management of intangible values, due to a need of reflecting them within managerial processes (Chatzel, 2003, p. 129). Even though ethics plays a significant role in business practice (Sen, 1997; Willmott, 1998), the accounting literature reports a gap in terms of supplying information or large scale studies related to ethics and the analysis of civic potential in the development of the economics of knowledge (McPhail, 2009). We believe that ensuring transparency and improving the information supplied by the entities represent an important step towards the access to knowledge and development of the economics of knowledge.

Knowledge and competences

Most definitions associated with human capital consider an individual knowledge and competences as the reference elements of this concept. They accumulated as a result of training, attending formation courses and the experience gained by an individual (De la Fuente & Ciccone, 2002). The concept of knowledge is delicate and complex, considered as the central theme of the micro and macro-economic reflection (Kharrat, 2008, p. 71). When talking about knowledge or capital related knowledge, we basically refer to those resources that, as they are used, enrich, increase and do not depreciate. They give the individual possessing them both power and responsibility, and the result of their use is reflected by the products manufactured and services rendered. According to Sveiby (1997, p. 10) an employee's competence is his/her capacity to act in different situations in order to create both tangible and intangible assets. The fundamental difference between a physical tangible element and an intangible one like an employee's knowledge, lies in the fact that the first of them, once transferred onto another person, is no longer the property of the transmitter, while the knowledge do not exhaust with use (Kharrat, 2008, p. 71). According to the literature, there is a close connection between the two components, as competences derive from knowledge and represent the stock of knowledge an individual owns (Sveiby, 1997).

Contrary to this supposition, Le Boterf (1994) explains that competence cannot be mistaken for knowledge, as it is a process noticeable in an action. Competence occurs as a result of the interaction between individual and collective knowledge, and in theory, it originates in the *knowledge based theory*. By favoring the intersection of these two concepts, the entity can identify more easily its strengths and weaknesses and plan activities. Although, the two concepts can complete each other, in case the *knowledge capital* of an entity suffers from insufficiencies, these can be completed by means of competences and vice versa, in the event competences are less efficient, they can be compensated by renewal of knowledge (Kharrat, 2008). The difference between the two notions occurs at construction level; competences are not limited only to knowledge, which has to be demonstrated and observed and go through a process of transfer and improvement in order to become competences (Kharrat, 2008, p. 76).

In our opinion, since employees competence refers to that stock of knowledge they possess, we believe that through these elements, an entity best emphasizes the value of human capital owned by the human resources it manages and develops in order to obtain economic benefits. By means of permanent accumulation of new knowledge, an employee may improve the level of competence and thus create added value both for her/him and the entity.

Experience

The totality of knowledge acquired in a direct manner by individuals about the surrounding

environment in the process of the social-historical practice, of material interaction between the individual and the outside world, is regrouped as accumulated experience by an individual (Encyclopedic Dictionary, 1993, p. 268). The level of experience held by an individual plays an important role for an entity, in the process of selection, recruitment and engagement thereof in the entity. Work place experience is expressed by that particular activity, which, in a working environment, can be remunerated or developed voluntarily and related to education and training programs and continuous professional formation followed by an individual. Work experience can offer an individual, the opportunities for developing confidence in competences that are his or others', and relating with those outside the entity and learning how to make decisions in at the time and place where required. Any individual learns by experience more likely how to work and not about the work (Shilling, 1987).

Education

It is common knowledge that education contributes to obtaining performance by individuals and to the global development of the society. Education generates significant benefits for the individual and those around him/her, and together with professional training are the most important investments in human capital (Becker, 1964). The earnings of people with a high level of education are almost always above average, although they are usually higher in developed countries. Professional study and training take place outside of the academic environment as well, especially at the working place. For example, college graduates are not considered prepared for the labor market when graduating from school, and their accommodation to is done by means of theoretical training programs, unconventional, or professional training courses (Becker, 1992). Certain professional connections are formed between the employees and employers, driven precisely by the education level and the work training; the benefits of education are multiple, although for some of them apparently smaller than the financial benefits.

Attitude

Employees' attitude is the most delicate part of human capital, including motivation, satisfactions (Sharafi *et al.*, 2012, p. 150) and loyalty for the working place. Should an employee be motivated to offer services for the employer, the more productive he/she would be, and their related productivity increased. In exchange for doing his/her work, they expect to be compensated by adequate remunerations and other benefits, depending on the situation, thus manifesting satisfaction for his/her achievements. Employees' satisfaction is their emotional, affective response, reflected as the difference between what employees want from their job and what they perceive as being offered (Moon & Kym, 2006, p. 257). Should satisfactions be to the extent of their expectations, then their loyalty towards the entity will measure up to the entity's expectations. The interest if the latter is to have confidence and be able to rely on employees' loyalty in the conditions of an especially competitive market. As a result, the more it would ensure a favorable working environment, the more the employees will be better motivated, satisfied and loyal to the entity.

We believe that the theoretical foundation of human capital corresponds to the knowledge, competences, education, experience, attitude, creativity, aptitudes, principles and values that could improve the entity's productivity and generate significant future revenues. As a result, we believe that the development of the human capital categorization has also practical implications besides the academic ones that could help companies better identify the elements able to create added value for them.

4. Conclusions

The paper extends the prior works by using a quite different approach in the study of human capital and highlights how this approach can be viewed as a contribution to the human capital literature. In this regard the paper provides insights regarding the conceptual framework of human capital that can be used by further researches in the field. By presenting definitions and categorization of human capital the paper can assist colleagues in tying their ideas to previously developed ones. Having in view that within literature there is a plethora of definitions and taxonomies associated to human capital in our opinion a first step toward valorization this type of capital is the creation of a general accepted conceptual framework that can be used generally in the analysis of human capital by researchers on one side and by any organization that involves the use of human capital on the other side.

We recognize that there is also limitation on this research. Endeavors have been made to improve the definition of human capital through categorization of it. In this regard we mention that there is a lack of a theoretical approach in rationalizing attributes and relation in formalizing the classification of human capital. Therefore, this limitation should provide the motivation for future research in the definition and categorization of human capital.

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COST SYSTEMS ADOPTION IN EGYPTIAN MANUFACTURING FIRMS: COMPETITIVE STUDY BETWEEN ABC AND RCA SYSTEMS

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Abstract: *The present study aims to carry out a competitive analytical study between ABC and RCA systems in order to adopt an effective cost system. The study used the survey method to describe and analyze these systems. The population of the study is Egyptian manufacturing firms. Accordingly, the number of received questionnaires was 406 (from 23 Egyptian manufacturing firms) in the second half of 2013. Finally, the results of the study stated that Egyptian manufacturing firms are Adopting Activity Based Costing (ABC) system more than the other cost systems, where 56.7% of Egyptian manufacturing firms apply Activity Based Costing (ABC) system, 5.3% of them apply Resource Consumption Accounting (RCA) system and 38% of them apply other cost systems.*

Key words: Activity Based Costing, ABC, Resource Consumption Accounting, RCA, Egypt.

JEL classification: C12, M41

1. Introduction

Nowadays, the product costs should be determined prior to production, in order to develop and identify superior strategy that will lead to a sustainable competitive advantage for the firm. It is necessary to consider all the product's costs at its entire life cycle to have a view of costs (Al-Qady, 2013); Therefore, cost systems evaluation in manufacturing firms has a special importance, because these systems are related to pricing systems, profit margins, corporate values and shareholder wealth. The objective of the present study is carrying out a competitive analytical study between ABC and RCA systems in order to adopt an effective cost system in some Egyptian manufacturing firms.

2. Review of Literature

Costing systems have components of a broader accounting system which are used by a given company or organization. Their main function is to keep a focused eye on expenditures which are made by the company. While the collected and generated data are also integrated into the overall accounting system. The costing approach allows for the data to be easily extracted for reports to upper management. The information that typically is gathered by a costing system allows owners and managers to quickly identify the current status of two key factors which are relevant to the success of the company: operational costs and performance cost. Operational costs are often the foundation of the data collected by the system, and with them, management is able to get a snapshot of all expenditures that are directly connected with the general operation of the organization, especially in terms of production costs. Performance cost allows management to view any and all expenditures that are related to helping the company to remain profitable. Many researchers stated several cost systems like Activity Based Costing (ABC), Resource Consumption Accounting (RCA) , Value Chain Analysis, Target Costing , Theory of Constraints (TOC) [for more information about these systems see: Blocher et al., 1999].

The authors revised several studies about these systems; they observed that Activity Based Costing (ABC) and Resource Consumption Accounting (RCA) systems have large topics in these studies. Also, they found a common area in the intellectual foundation for both of them.

2.1. The Activity Based Costing (ABC) system:

The concept of the Activity Based Costing (ABC) system as a system which concentrates on how the activities consume resources and the final cost units consume the cost of these activities. This is in addition to state its importance and stages of development. The literature related to ABC system started in 1954 and then the studies rolled after.

Cooper and Kaplan (1992) studied Activity Based Costing (ABC) systems and measuring the costs of resources usage. This study was the second development for ABC system. They pinpointed the dimensions of this system which are represented in two dimensions (Measuring dimension and reduction dimension). The measuring dimension provides more accurate and subjective information about product cost because of using the activities and the cost drivers. Then the role of cost reduction dimension comes after that. This dimension aims at cancelling the activities which consume resources without adding a value and getting rid of the expenditure on these resources or re-distributing of these resources on the other activities which add value.

The authors see that ABC system is a methodology that measures the cost and performance of cost objects, activities and resources. Cost objects consume activities and activities consume resources. Resource costs are assigned to activities based on their use of those resources and activity costs are reassigned to cost objects (outputs) based on the cost objects proportional use of those activities. Activity-Based Costing (ABC) system incorporates causal relationships between cost object and activity and between activity and resource.

The Activity Based Costing (ABC) system is defined as an accounting Costing and administration system simultaneously where it presents two types of information: a) Financial information related to the costs of activities and products or services; b) Financial information related to those activities (Dergham, 2005). Some modern manufacturing firms in Egypt trend using Activity Based Costing (ABC) system because it achieves the following features:

- I. Supporting mechanisms for controlling and managing the costs through specifying accurately the events and activities which drive costs. (Abd El-Ghany, 1999; Needles et al., 2010 and Balakrishnan et al., 2013).
- II. Determining the important activities in the firms because it is a valuable managerial tool and it is useful in the service organizations which the Traditional Cost (TC) systems are not appropriate for the nature of services sector system (El-Erbeed, 2003).
- III. Maximizing the profitability through providing accurate and timely information about costs in the light of severe competition in the aim of pricing the products or services. (Samy, 2000 and Mowen et al., 2012).
- IV. Justice and subjectivity in allocation of indirect costs through selecting cost drivers which are suitable for resources and the activities and which show the causal relationship of the cost behaviors (Abd El-Karim and El-Kakhn, 1997 and Balakrishnan et al., 2013).
- V. Making better managerial decisions through accurate determination of the products costs and hence making decisions related to stopping producing a certain product or expanding producing it or comparing between manufacturing an important part of a certain product or buying it from abroad (Chan, 1993 ; Dhaher, 2002 ; Needy et al., 2003 and Johnson,2008).
- VI. Rationalizing the internal and external management decisions because it provides the firms with the financial and non-financial information. Also, It provides precise information about costs which results obtaining better information concerning the costs of products and their profitability and the firm profitability as a whole (Samy, 2000 and Witherite and Kim, 2006).
- VII. Contribution in provision of improved financial and non-financial information (Chan,1993; Ramsey , 1994 ; Samy, 2000 ; Grasso, 2005 and Balakrishnan et al.,2013).
- VIII. Determining the differences among the actually used resources and the available submitted resources or the cost of product or service and concentrates on the idle work hours and defected materials (Sabry, 2002).

Despite the advantages of the Activity Based Costing (ABC) system, but studies show some disadvantages of this system as follows:

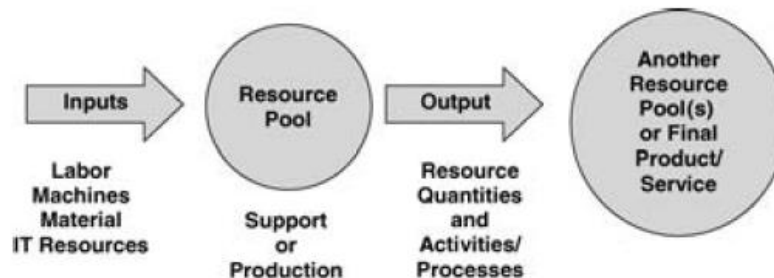
- I. The efficiency of using the Activity Based Costing (ABC) system, depends mainly on the good selection of the cost driver. (El-Meshal, 2005 and El-Zatma, 2006).
- II. Its inability in solving all the problems related to future planning (El-Erbeed, 2003).
- III. The Activity Based Costing (ABC) system still depends on the comprehensive loading method of costs, which is not useful in many managerial and strategic decisions (Abu Khashaba, 1999 and Balakrishnan et al.,2013).
- IV. The non-availability of sufficient experience for applying this system, especially in Egyptian firms, because it needs a costing awareness and sufficient knowledge from accountants and this is the same defect to those who use the Traditional Cost (TC) system (Samy, 2000).

- V. The human element resistance to changes and their non-satisfaction of applying the developed systems either because of lack of their experience or because of their inefficiency in applying the system effectively. (Abd El-Ghany, 1999).
- VI. The relative difficulty in applying the Activity Based Costing (ABC) system in the service organizations in Egypt and other countries because of the following two problems:
 - The first problem is representing in difficulty of obtaining the information in the services organizations where many activities contain non-repeated human tasks which cannot be recorded automatically.
 - The second problem is representing in a large percentage of the services industries, which trend to be activity costs at the level of easiness and cannot be followed up to any services submitted to the organization (Garrison et al., 2011).
- VII. Applying the Activity Based Costing (ABC) system requires: Detailed accounting records, Good system for symbols and Numbering the costs to allocate the costs precisely (El - Erbeed, 2003 and Balakrishnan et al.,2013).
- VIII. The Activity Based Costing (ABC) system assumes that the relationships type among the resources and the activities and among the activities and products are linear relations (Abu Khashaba, 1999).
- IX. The Activity Based Costing (ABC) system does not overcome the problem of random allocation of indirect costs (Dhafer, 2002).

2.2. Resource Consumption Accounting (RCA) system:

Resource Consumption Accounting (RCA) is an emerging solution that integrates the best methods from across the globe. RCA system combines the German cost management system "Grenzplankostenrechnung" (GPK), translated: Flexible analytic cost planning and control, with the cost allocation methods of ABC system to form a comprehensive Management Accounting (MA) system that may finally give non-accountants ready information to make decisions. RCA system integrates measurement and management of the business into an accounting system that reflects how the company actually operates (White, 2009). Fig.1 shows the overcome of RCA system.

Figure 1: Inputs-Output modeling of resource consumption



Source: White, 2009.

RCA system involves several advantages regarding clarifying resource consumption and effectively managing capacity, These advantages can be summarized as follows:

- I. It provides a clear insight about the causal relationships among resources in both resource quantities and their associated costs (White, 2009).
- II. It provides attributable, but not fully absorbed, costs of the final product. In this way, the cost of idle/excess capacity can be accurately isolated (White, 2009).
- III. It provides direct insight into resource capacity management and capacity costs, not merely the information to estimate or calculate them (White, 2009).
- IV. By correlating required inputs with outputs, RCA system is able to provide a consistent view on resource consumption and cost behavior. It also answers the endless debate about fixed and variable costs and their use in decision making (Merwe, 2011).

2.3. Comparison between ABC and RCA systems:

According to the previous studies, the following summarized comparison between ABC and RCA systems may be held (Table 1).

Table 1: Comparison between ABC and RCA Systems

No	Approach	ABC system	RCA system
1	Objective	It is mainly developed to solve the problems of allocating costs to products.	It is mainly developed to solve the problems of resource consumption and idle / excess capacity isolation.
2	Causality in cost assignment	It assumes full utilization of resources by activities, and allows assigning full resource costs to activities. Costs of activities are then assigned to products based on the volume of each activity's cost driver consumed by products.	It focuses on the use of resource pools' output quantities by other resource pools and final product. Costs are applied to products after the operational resource quantity model is built, in order to causally reflect the consumption of resources.
3	Resource Interrelationships	It focuses on activities, and thus interrelationships between resources are not identified.	It focuses on resources and, thus, realizes the existence of interrelationships between resources.
4	Dealing with variability	It expands the range of variable costs by assuming cost flow from resources, through activities at different hierarchy levels, to cost objects using a single allocation rate for each activity.	It adopts the responsiveness principle. Costs are broken out at each resource pool into fixed and proportional, and separate rates and drivers are used to assign costs from each resource pool.
5	Changing nature of cost	It ignores that costs have inherent nature that is proportional or fixed. ABC also doesn't realize that inherent nature of cost may change at point of consumption.	It accurately traces and characterize inherent fixed and proportional costs as. RCA also recognizes that the nature of costs may change at point of consumption.
6	Capturing complexity	It fails to capture complexity when there are changes in operations that require adding new activities to the cost model.	Its quantity structure makes the modification of the cost model much simpler, since resource pools can be added to or removed from the cost model.
7	Isolation of unused capacity	It is based on practical capacity of activities. Thus, unused capacity cannot be isolated at the resource level and cannot be attributed to its resource origins.	It is based on theoretical capacity of resources, which provides insight to make the unused capacity visible.
8	Cost assignment and capacity cost rates	It employs practical capacity of activities, as the denominator volume, to determine a single allocation rate for each activity.	Arbitrary and distorting cost allocations can be avoided by RCA's quantity structure, as well as employing theoretical capacity and planned output to determine separate allocation rates for the fixed and proportional resource costs respectively.

Source: Al-Qady, 2013.

3. The Study Hypotheses

The present study aims to test the following hypotheses:

H₀: There is a significant indifference among applying cost systems (ABC, RCA and others) in Egyptian manufacturing firms.

H₁: There is a significant difference among applying cost systems (ABC, RCA and others) in Egyptian manufacturing firms.

4. Data

The authors used the questionnaire instrument in addition to the test approach to confirm the correctness of collected views. The number of questionnaire instruments sent was 438 and the number of the received questionnaires was 397 with a response percentage of 90.64%.

5. Methods of Data Analysis

The study used a Statistical Package for the Social Sciences (SPSS) for application of reliability, descriptive and inferential statistics.

6. Statistical Analysis

6.1. Reliability:

The correlation coefficient among the dimensions (Cost systems) was significant (at level of 1%) and the Cronbach-Alpha Coefficient was 81.09.

6.2. Descriptive:

Table 2 shows values of mean and Standard Deviation (S.D.) of survey dimensions.

Table 2: Descriptive statistics values

No.	Dimension (Cost system)	Mean	Std. Deviation (S.D.)
1	ABC	0.567	0.496
2	RCA	0.053	0.224
3	Others	0.380	0.487

Source: SPSS output.

The mean and Standard Division (S.D.) values were (0.053, 0.567 and 0.380) and (0.224, 0.496 and 0.487) for Resource Consumption Accounting (RCA), Activity Based Costing (ABC) and other costing systems, respectively.

In spite of the importance and benefits of the application of Resource Consumption Accounting (RCA) system, the application of this system (5.3%) is less than the application of Activity Based Costing (ABC) (56.7%) and other costing systems (38%) in the Egyptian manufacturing firms.

6.3. Inferential statistics:

Table 3 shows output of Cochran Test values.

Table 3: Output of Cochran Test

System	Value	
	0	1
ABC	172	225
others	246	151
RCA	376	21

Test Statistics

N	397
Cochran's Q	161.189 ^a
df	2
Asymp. Sig.	.000

a. 1 is treated as a success.

Source: SPSS output.

Table 3 indicates that there is a significant difference among applying cost systems (ABC , RCA and others) in Egyptian manufacturing firms (at level of 1%).

7. Conclusion

1-Manufacturing firms try to find an effective style for estimating and planning the cost and this is a common feature in different countries and sectors.

2-There is a significant difference among applying cost systems (ABC, RCA and others) in Egyptian manufacturing firms (at level of 1%).

3- In spite of the importance and benefits of the application of Resource Consumption Accounting (RCA) system, the application percentage of this system (5.3%) is less than the application percentage of Activity Based Costing (ABC) (56.7%) and other costing systems (38%)in the Egyptian manufacturing firms.

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TRANSACTION-SECTORAL STRUCTURE RESEARCH METHODOLOGY OF RUSSIAN NATIONAL ECONOMY BASED ON THE STATISTICAL SYSTEM OF NATIONAL ACCOUNTS

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Abstract: *The main aim is to investigate the interaction of the three sectors of the national economy of Russia: industries, producing capital goods and production services to the organizations (sector A), industries, producing consumer goods and services to the people (sector B) and industries, producing financial services (banking, insurance, investment and other) to the organizations and people (sector C). To achieve this, the author has applied transaction - sectoral research methodology used in the national economy and statistics of national accounts, as well as the calculations of gross output and gross domestic product of Russia for the period from 1961 to 2011. As a result of statistical analysis was developed formalized mathematical model of the interaction of the financial sector to the real sector of the national economy of Russia.*

Key words: transaction sector, the system of national accounts, gross domestic product, the statistics

JEL classification: E2, L6, L7, L8

1. Institutional theoretical principles study of the economic system

Among the main theories in the framework of neo-institutionalism is necessary to allocate theories of transaction costs and property rights. Representatives of institutional theories give different definitions of transaction and transaction costs, as well as their classification. According John R. Commons, transaction - this alienation between individuals and the acquisition of property rights and freedoms created by society (Commons John R. 1931.p.652). English jurist A.Onore considered, that transaction are realized under a change of ownership and proposed 11 elements (Honore A.M. 1961. p.112 -128). According to A. Alchian and H. Demsetz, the value of rights determines the value of the commodities exchanged (Alchian A., Demsetz H. 1973. p.171).

The theory of transaction costs includes macro and micro trends in the study of economic processes. Douglass North has made a great contribution to the development of macro trends in the study (North D. 1992. p.447-459). Transaction costs depend on the institutional environment, but at the same time they significantly affect the organization of macroeconomics. K. Arrow defined transaction costs as the costs of operation of the economic system (Arrow K. 1969. p.59 -73). S. Cheung defined transaction costs as "costs, the existence of which is impossible to imagine in economics Robinson Crusoe" (Cheung S. 1978). Extended treatment of transactions arose in connection with the debate on the role of government in a market economy (Coase R. 1937. p.386 -405). George Stigler defined an economy with zero transaction costs so as unreal as the physical world without friction forces. Above statement G.Stigler called "Coase Theorem". In the economic literature widespread definition of transaction costs formulated C.J. Dahlmann: "Transaction costs - it costs for collecting and processing information, the costs of negotiations and decision-making, monitoring costs and legal protection for executing the contract" (Dalman C.J. 1979. p.148).

Any individual impact on the physical and social environment. Impact on individual physical environment is a process of transformation, and the process of social impacts is called transaction. D.North and John J.Wallis understood by transformation costs are costs that are associated with the transformation of resources into a product, and under such transaction costs, which are caused by the need to exchange commission (Wallis John J., North Douglass C. 1986. p.95-161). D. North pointed to a number of factors that affect the level of transaction costs (North D. 1992. p.447- 459), and R. Coase noted the impact of uncertainty on the value of transaction costs (Coase Ronald H.2000. p.22). According to H.A.Simon, the measurement problem can be solved by comparing the transaction costs for different methods of transactions (Simon H.A. 1983.p.24).

Over the past century, a number of works were published on the theory of transaction costs, but little empirical research in this area. Among the first attempts of scientists direct measurement of transaction costs are determining their size and measurement at the micro - and macro levels of the economy. For the first case, the definition of transaction costs include research H. Demsetz, who calculated the value of the

transaction costs that arise in a particular market, namely the costs of transactions in shares on the New York Stock Exchange (Demsetz Harold. 1968. p.33- 53).

The magnitude of transaction costs is significant macroeconomic research. This is confirmed by analysis of the U.S. economy in the period from 1870 to 1970, conducted by C. D. North and John J. Wallis (Wallis John J., North Douglass C. 1986. p.95- 161). They spent the classification of transaction costs, given a separate sector of the economy, known as transactional as well as empirical calculations made in this sector. To estimate the magnitude of transaction costs and D. North, J. Wallis used a broad definition of the concept or as a "cost of obtaining the benefits of specialization and division of labor" (Wallis John J., North Douglass C. 1986. p.96) To determine the magnitude of transaction costs they shared all kinds of economic activity in \neg cooperating transformational function, as well as ensuring the organization of exchanges ("transactional function").

Economic category "transaction" is derived from the Latin word «transactio», meaning interaction. In modern scientific literature the English word «transaction», which in most cases is denoted concrete concept dealings. Author of the article under the transaction are aware of its initial value, that is an extended treatment of this category, and not the nature of the application (operation, contract, etc.). The original meaning of the transaction for fundamental science and business practices has not micro, but macro-economic in nature. Transaction in relation to the study of macroeconomic processes means the study of the interaction of industries and economic activities, areas and sectors, markets, resources and institutional units in the world and national economy, as well as developing on the basis of their qualitative and quantitative proportions. The interaction of the various processes in the economy of the country is formed defined national economic structure.

2. Determination of the financial sector on the basis of statistical data of national accounts

Economy is a complex system consisting of a set of elements, which serve the phenomena and processes, group of industries, sectors and areas of national and world economy. The objects of study of the economic system are structural changes in the following fundamental (basic) phenomena and processes: production, distribution and consumption of the gross domestic product and national income, savings and investment, accumulation and consumption, monetary circulation, etc. In addition, the economic system is considered as a specific form of interaction between different markets: resources, goods and services, financial assets.

The main macroeconomic indicator of the dynamics of the economic system, the gross output of goods and gross domestic product. During the last century appeared a modern international system of national accounting of gross output and domestic product. In the modern system of national accounts emphasis on the financial aspect of the reproduction of the economic system, and on the proportion of cost of reproduction of the gross domestic product, that is system of indicators characterizing the changes of \neg assets and liabilities of the various institutional units or subjects of market relations.

To study the financial aspects of the reproduction of the economic system, in our opinion, should be separately allocate financial sector. This is supported by the theory and practice of financial and financial aspects of social reproduction proportions of gross output and gross domestic product. Resulting aggregate measure of financial and social reproduction is the result of net lending or net borrowing of all institutional units, members of management. In education, the net lending or net borrowing actively involved primarily financial and credit intermediaries who subsequently create financial conditions for the resumption of extended reproduction of the gross domestic product. The role and functions of the financial sector in the world and national economy have risen sharply in the last quarter of the last century as a result of globalization. Lack of economic models in the financial sector and industry groups, financial services, does not give a satisfactory explanation of the investment factor of economic growth, and the nature of the interaction of macroeconomic phenomena such as consumption, investment, savings and liquidity preference. Also, do not understand the mechanism of interaction of commodity and money markets, which does not allow methodologically correctly solve the problem of inflation.

On the basis of the national accounts statistics were calculated the gross domestic product of the Russian Federation by three methods (production, generation of income and end-use) for years 1961-2011, and were set actual and necessary proportions dividing gross profit (surplus value) and the product into two parts: the accumulation of real assets ($\Delta c'$ - an increase of material costs, $\Delta c''$ - fixed capital formation and m/t' or Δv - improving the living conditions of the personal factor of production) and the accumulation of financial assets (m/x - securities, insurance reserves, deposits, etc.). Accumulation dynamics of real and financial assets in Russia is of paramount importance in modern conditions for the modeling and evaluation

of the economic growth, explain the interaction of macroeconomic phenomena such as consumption, investment, savings and liquidity preference.

Gross domestic product at market prices is defined as the difference between gross output (at market prices) and intermediate consumption: $vvp = w - c'$. If we exclude (subtract) from the gross output (GO) of products and services (w) intermediate consumption (c'), we obtain the corresponding formulas for calculating the gross domestic (internal) product at market prices by three methods:

- The production method: $c'' + v + m (m' + n') = vvp$;
- Method of income: $c'' + v + m (n' + n'' + p) = vvp$;
- By end use: $c'' + v + m / t + \Delta c' + \Delta c'' + m / x + o + r = vvp$.

Mathematical formalization of the reproductive process of the national economy has the following relationship. Structure implemented capital and consumer goods and services, and also financial services in 1998 was as follows.

$$\begin{aligned} \text{A) Capital goods and services amounted to: } & 10209w_1 = \\ & = 8879w_1^1(c_1^1+v_1^1+m_1^1)+2846w_1^2(c_1^2+v_1^2+m_1^2) - 1637w_1^3(c_1^3+v_1^3+m_1^3)+121r_1 \end{aligned}$$

$$\begin{aligned} \text{B) Consumer goods and services amounted to: } & 7916w_2 = \\ & = 8358w_2^1(c_2^1+v_2^1+m_2^1)+272w_2^2(c_2^2+v_2^2+m_2^2) - 808w_2^3(c_2^3+v_2^3+m_2^3)+94r_2 \end{aligned}$$

$$\begin{aligned} \text{C) Financial services accounted for: } & 206w_3 = \\ & = 210w_3^1(c_3^1+v_3^1+m_3^1)+4w_3^2(c_3^2+v_3^2+m_3^2) - 10w_3^3(c_3^3+v_3^3+m_3^3)+2r_3 \end{aligned}$$

Total gross output of products and services sold on the domestic and foreign markets was:

$$18331w = 17447w^1(c^1+v^1+m^1)+3122w^2(c^2+v^2+m^2) - 2455w^3(c^3+v^3+m^3)+217r_3$$

where: $w_1^1(c_1^1+v_1^1+m_1^1)$, $w_2^1(c_2^1+v_2^1+m_2^1)$, $w_3^1(c_3^1+v_3^1+m_3^1)$ - respectively the cost of resident capital and consumer goods and services, as well as the cost of financial services, which is realized in the domestic market;

-- $w_1^2(c_1^2+v_1^2+m_1^2)$, $w_2^2(c_2^2+v_2^2+m_2^2)$, $w_3^2(c_3^2+v_3^2+m_3^2)$ - respectively the cost of resident capital and consumer goods and services, as well as the cost of financial services, implemented in the foreign market;

- $w_1^3(c_1^3+v_1^3+m_1^3)$, $w_2^3(c_2^3+v_2^3+m_2^3)$, $w_3^3(c_3^3+v_3^3+m_3^3)$ - respectively the cost of capital and consumer goods and services, as well as the cost of financial services produced by non-residents and sold in the domestic market;

- $r_{1,2,3}$ - a statistical discrepancy.

For comparison, the structure of realized capital and consumer goods and services, and financial services in 2009 was as follows:

$$\begin{aligned} \text{A) Capital goods and services amounted to: } & 11015w_1 = \\ & 9939w_1^1(c_1^1+v_1^1+m_1^1)+2584w_1^2(c_1^2+v_1^2+m_1^2) - 1465w_1^3(c_1^3+v_1^3+m_1^3) - 43r_1 \end{aligned}$$

$$\begin{aligned} \text{B) Consumer goods and services amounted to: } & 7609w_2 = \\ & = 8011w_2^1(c_2^1+v_2^1+m_2^1)+177w_2^2(c_2^2+v_2^2+m_2^2) - 549w_2^3(c_2^3+v_2^3+m_2^3) - 30r_2 \end{aligned}$$

$$\begin{aligned} \text{C) Financial services accounted for: } & 310w_3 = \\ & = 323w_3^1(c_3^1+v_3^1+m_3^1)+12w_3^2(c_3^2+v_3^2+m_3^2) - 24w_3^3(c_3^3+v_3^3+m_3^3) - 1r \end{aligned}$$

Total gross output of products and services sold on the domestic and foreign markets was:

$$18934w = 18273w^1(c^1+v^1+m^1)+2773w^2(c^2+v^2+m^2) - 2038w^3(c^3+v^3+m^3) - 74r_3$$

Consider the use of statistical data of Russia's GDP. Federal State Statistics Service has consolidated national accounts for the production, distribution and use of gross output and gross domestic product in real and natural-value terms. On the basis of statistical data we have calculated the structure of gross output and gross domestic product of Russia by end-use for 1961- 2011 years. If the value of GDP taken for 10,000 currency units or 100000 ‰ , using the gross output of products and services, the gross domestic product for 1961 to 2011 years, can be expressed as follows (Table 1).

Table 1: Frequency of Russia's GDP over the period from 1961 to 2011

Year	Gross Output w	Inter- medi- ate con- sump- tion c'	Gross domestic (internal) product vvp	Gross accumu- lation of the ground capital (c''+ + $\Delta c''$)	The chan- ges in mate- rials $\Delta c'$	Expenses on the fi- nal con- sumption (v+ Δv + m/t'''+ m/t''')	Balance of mo- ney (in- come and trans- fers) o	Net lending (+) / or net borro- wing (-) m/x	Statis- tical dis- cre- pancy r
1	2(3+4)	3	4(5+6+7+8 +9+10)	5	6	7	8	9	10
1961	20200	10200	10000	1597	417	8028	*	58	-100
1971	20819	10819	10000	2078	307	7504	*	81	30
1981	20203	10203	10000	2490	245	7210	102	-110	63
1990	19246	9246	10000	2769	156	6832	*	243	101
1991	19042	9042	10000	2323	1301	6119	*	28	229
1992	20740	10740	10000	2395	1069	4832	-106	1512	298
1993	18718	8718	10000	2039	662	6224	32	739	304
1994	17884	7884	10000	2181	373	6910	57	400	79
1995	20136	10136	10000	2108	435	7116	133	208	0
1996	19816	9816	10000	2000	367	7151	155	268	59
1997	19390	9390	10000	1829	369	7582	244	-24	0
1998	18331	8331	10000	1615	-119	7620	468	199	217
1999	18242	8242	10000	1439	44	6812	387	1318	0
2000	18322	8322	10000	1686	184	6128	-155	2157	0
2001	19031	9031	10000	1889	306	6582	471	797	-45
2002	18687	8687	10000	1791	212	6873	562	515	47
2003	18792	8792	10000	1837	244	6815	336	799	-29
2004	18601	8601	10000	1836	252	6688	255	969	0
2005	18582	8582	10000	1774	232	6621	432	937	4
2006	18685	8685	10000	1851	286	6553	310	962	38
2007	18884	8884	10000	2109	317	6580	342	517	135
2008	18716	8716	10000	2192	361	6537	309	602	-1
2009	18934	8934	10000	2144	-271	7466	431	304	-74
2010	*	*	10000	2190	94	7136	355	480	-255
2011	*	*	10000	2129	371	6825	876	-201	

Legend: w - revenue from the gross output of products and services at market prices; vvp - gross domestic (internal) product; c' - intermediate consumption or material costs in the form of money to produce products and services; c'' - depreciation (depreciation cost of capital); v - gross compensation of employees, including deductions from wages and hidden wages; m - surplus value (gross profit) , including indirect taxes; n' - net taxes on products (value added tax, excise duties and import-export duties); n'' - net taxes on production; p - net income and net mixed income; $\Delta c''$ - change (increase) in capital cost due to the gross surplus of GDP; m/t' (Δv) - the value of consumption goods and services kind of its own production by households, as well as final consumption and social transfers in kind in the form of government expenditures on individual goods and services that have been implemented by the gross value of the surplus product; m/t'' - increase consumption of goods workers, that is Δv ; m/t''' - the actual final consumption of public administration, which is equivalent to the value of the gross surplus of GDP; m/x - accumulated part of surplus value of units in the form of money and spent on the accumulation of financial assets; ti - number not equal to zero that share of the gross value of the surplus product on certain parts of coming to the end use of different institutional units; o - net wage income, capital and current transfers; r - a statistical discrepancy .

Implementation structure of the gross output of products and services in natural- real terms in the context of the three sectors of the economy (industries, producing the means of production and providing services to organizations (sector A), industries, producing consumer goods and providing services to the public (sector B) and the industries, providing financial and credit services to businesses and households (sector C) in a formalized way for 1998 to 2009 years presented in Table 2.

Table 2: Structure of the use of cash proceeds from the sale of the gross output of goods in the context of Russian products and services of the three sectors of the economy for the period 1998 to 2009 (direction of flow in percent)

Year	Gross Output W	Consumption of products and services group I organizations (sector A)			Consumption of products and services group II industries (sector B) or final consumption expenditure by population W ₂ (v+Δv)	Consumption of products and services group III industries (sector C) or net lending (+) / or net borrowing (-) W ₃ m/x	Balance of money (income and transfers) O	Statistical discrepancy R
		including		Total W ₁ (c'+c''+Δc)				
		Intermediate consumption (to indemnify materials costs) c'	Gross accumulation of the ground capital c''+Δc					
1	2(5+6+7+8+9)	3	4	5 (3+4)	6	7	8	9
1998	100	45,45	8,16	53,61	41,57	1,09	2,55	1,18
1999	100	45,18	8,13	53,31	37,34	7,23	2,12	0
2000	100	45,42	10,21	55,63	33,45	11,77	- 0,85	0
2001	100	47,45	11,53	58,98	34,59	4,19	2,48	- 0,24
2002	100	46,49	10,72	57,21	36,78	2,75	3,01	0,25
2003	100	46,78	11,07	57,85	36,26	4,25	1,79	- 0,15
2004	100	46,24	11,22	57,46	35,96	5,21	1,37	0
2005	100	46,18	10,80	56,98	35,63	5,04	2,33	0,02
2006	100	46,48	11,44	57,92	35,07	5,15	1,66	0,20
2007	100	47,04	12,85	59,89	34,84	2,74	1,81	0,72
2008	100	46,57	13,64	60,21	34,93	3,22	1,65	0,01
2009	100	47,19	9,89	57,08	39,43	1,60	2,28	- 0,39

Legend: W₁, W₂, W₃ - economic indicators of the three sectors of the economy (or industries producing capital goods and production services organizations, industries producing consumer goods and services to the population and industries producing financial services (banking, insurance, investment and other) to organizations and population.

3. Conclusions

The calculations allow to formalize the exchange of goods in the three sectors of the real and natural-value terms, as well as to balance income and expenditure in the national economy in Russia for the period 1998 to 2009. As an example, use the appropriate values for the year 1998.

Total revenues from the sale of the gross output of the three sectors were:

$$I. 8879w_1^1(c_1^1+v_1^1+m_1^1)+1209[w_1^2(c_1^2+v_1^2+m_1^2)-w_1^3(c_1^3+v_1^3+m_1^3)]+121r_1=10209w_1$$

$$II. 8358w_2^1(c_2^1+v_2^1+m_2^1)-536[w_2^2(c_2^2+v_2^2+m_2^2)-w_2^3(c_2^3+v_2^3+m_2^3)]+94r_2=7916w_2$$

$$III. 210w_3^1(c_3^1+v_3^1+m_3^1)-6[w_3^2(c_3^2+v_3^2+m_3^2)-w_3^3(c_3^3+v_3^3+m_3^3)]+2r_3=206w_3$$

$$(I+II+III). 17447w^1(c^1+v^1+m^1)+667[w^2(c^2+v^2+m^2)-w^3(c^3+v^3+m^3)]+217r_3=18331w$$

Total expenditure on final consumption of products and services sectors accounted for three:

$$(I + II + III) = 9827w_1[8331c'+1496(c''+\Delta c'+\Delta c'')] + 7620w_2(v+\Delta v) + 199w_3(m/x) + 468o + 217r$$

Hence we can write the system of equations of revenues and expenses and natural-real value for the year 1998:

$$I. 8879w_1^1(c_1^1+v_1^1+m_1^1)+1209[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] + 121r_1 =$$

$$= 9827w_1[8331c'+1496(c''+\Delta c'+\Delta c'')] + 121r_1 + 261o_1 = 10209w_1$$

$$II. 8358w_2^1(c_2^1+v_2^1+m_2^1) - 536[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 94r_2 =$$

$$= 7620w_2(v+\Delta v) + 94r_2 + 202o_2 = 7916w_2$$

$$III. 210w_3^1(c_3^1+v_3^1+m_3^1) - 6[w_3^2(c_3^2+v_3^2+m_3^2) - w_3^3(c_3^3+v_3^3+m_3^3)] + 2r_3 =$$

$$= 199w_3(m/x) + 2r_3 + 5o_3 = 206w_3$$

As an example, we use the appropriate values for the year 1998.

Total revenues from the sale of the gross output of the three sectors were:

$$I. 8879w_1^1(c_1^1+v_1^1+m_1^1)+1209[w_1^2(c_1^2+v_1^2+m_1^2)-w_1^3(c_1^3+v_1^3+m_1^3)]+121r_1=10209w_1$$

$$\text{II. } 8358w_2^1(c_2^1+v_2^1+m_2^1) - 536[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 94r_2 = 7916w_2$$

$$\text{III. } 210w_3^1(c_3^1+v_3^1+m_3^1) - 6[w_3^2(c_3^2+v_3^2+m_3^2) - 10w_3^3(c_3^3+v_3^3+m_3^3)] + 2r_3 = 206w_3$$

$$(\text{I}+\text{II}+\text{III}) 17447w^1(c^1+v^1+m^1) + 667[w^2(c^2+v^2+m^2) - w^3(c^3+v^3+m^3)] + 217r_3 = 18331w$$

Total expenditure on final consumption of products and services sectors accounted for three (I + II + III): $18331w = 9827w_1[8331c' + 1496(c'' + \Delta c' + \Delta c'')] + 7620w_2(v + \Delta v) + 199w_3(m/x) + 468o + 217r$

Naturally, the real and the value of commodities in the national economy of Russia in 1999 to 2009 took place as follows:

1). В 1999 году

$$\text{I. } 7626w_1^1(c_1^1+v_1^1+m_1^1) + 2310[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] + 0r_1 = 9725w_1[8242c' + 1483(c'' + \Delta c' + \Delta c'')] + 0r_1 + 211o_1 = 9936w_1$$

$$\text{II. } 7550w_2^1(c_2^1+v_2^1+m_2^1) - 590[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 0r_2 = 6812w_2(v + \Delta v) + 0r_2 + 148o_2 = 6960w_2$$

$$\text{III. } 1361w_3^1(c_3^1+v_3^1+m_3^1) - 15[w_3^2(c_3^2+v_3^2+m_3^2) - w_3^3(c_3^3+v_3^3+m_3^3)] + r_3 = 1318w_3(m/x) + 0r_3 + 28o_3 = 1346w_3$$

2). В 2000 году

$$\text{I. } 7636w_1^1(c_1^1+v_1^1+m_1^1) + 2471[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] + 0r_1 = 10192w_1[8322c' + 1870(c'' + \Delta c' + \Delta c'')] + 0r_1 - 85o_1 = 11107w_1$$

$$\text{II. } 6530w_2^1(c_2^1+v_2^1+m_2^1) - 453[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 0r_2 = 6128w_2(v + \Delta v) + 0r_2 - 51o_2 = 6077w_2$$

$$\text{III. } 2154w_3^1(c_3^1+v_3^1+m_3^1) - 16[w_3^2(c_3^2+v_3^2+m_3^2) - w_3^3(c_3^3+v_3^3+m_3^3)] + 0r_3 = 2157w_3(m/x) + 0r_3 - 19o_3 = 2138w_3$$

3). В 2001 году

$$\text{I. } 9728w_1^1(c_1^1+v_1^1+m_1^1) + 1782[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] - 27r_1 = 11226w_1[9031c' + 2195(c'' + \Delta c' + \Delta c'')] - 27r_1 + 284o_1 = 11483w_1$$

$$\text{II. } 7246w_2^1(c_2^1+v_2^1+m_2^1) - 497[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] - 16r_2 = 6582w_2(v + \Delta v) - 16r_2 + 167o_2 = 6733w_2$$

$$\text{III. } 834w_3^1(c_3^1+v_3^1+m_3^1) - 17[w_3^2(c_3^2+v_3^2+m_3^2) - w_3^3(c_3^3+v_3^3+m_3^3)] - 12r_3 = 797w_3(m/x) - 12r_3 + 20o_3 = 815w_3$$

4). В 2002 году

$$\text{I. } 9436w_1^1(c_1^1+v_1^1+m_1^1) + 1586[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] + 28r_1 = 10690w_1[8687c' + 2003(c'' + \Delta c' + \Delta c'')] + 28r_1 + 332o_1 = 11050w_1$$

$$\text{II. } 7579w_2^1(c_2^1+v_2^1+m_2^1) - 492[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 18r_2 = 6873w_2(v + \Delta v) + 18r_2 + 214o_2 = 7105w_2$$

$$\text{III. } 548w_3^1(c_3^1+v_3^1+m_3^1) - 17[w_3^2(c_3^2+v_3^2+m_3^2) - w_3^3(c_3^3+v_3^3+m_3^3)] + 1r_3 = 515w_3(m/x) + 1r_3 + 16o_3 = 532w_3$$

5). В 2003 году

$$\text{I. } 9468w_1^1(c_1^1+v_1^1+m_1^1) + 1603[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] - 17r_1 = 10873w_1[8792c' + 2081(c'' + \Delta c' + \Delta c'')] - 17r_1 + 198o_1 = 11054w_1$$

$$\text{II. } 7382w_2^1(c_2^1+v_2^1+m_2^1) - 445[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] - 11r_2 = 6813w_2(v + \Delta v) - 11r_2 + 124o_2 = 6926w_2$$

$$\text{III. } 836w_3^1(c_3^1+v_3^1+m_3^1) - 23[w_3^2(c_3^2+v_3^2+m_3^2) - w_3^3(c_3^3+v_3^3+m_3^3)] - 1r_3 = 799w_3(m/x) - 1r_3 + 14o_3 = 812w_3$$

6). В 2004 году

$$\text{I. } 9224w_1^1(c_1^1+v_1^1+m_1^1) + 1614[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] + 0r_1 = 10689w_1[8601c' + 2088(c'' + \Delta c' + \Delta c'')] + 0r_1 + 149o_1 = 10838w_1$$

$$\text{II. } 7141w_2^1(c_2^1+v_2^1+m_2^1) - 360[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 0r_2 = 6688w_2(v + \Delta v) + 0r_2 + 93o_2 = 6781w_2$$

$$\text{III. } 1012w_3^1(c_3^1+v_3^1+m_3^1) - 30[w_3^2(c_3^2+v_3^2+m_3^2) - w_3^3(c_3^3+v_3^3+m_3^3)] + 0r_3 = 969w_3(m/x) + 0r_3 + 13o_3 = 982w_3$$

7). В 2005 году

$$\text{I. } 9131w_1^1(c_1^1+v_1^1+m_1^1) + 1709[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] + 2r_1 = 10588w_1[8582c' + 2006(c'' + \Delta c' + \Delta c'')] + 2r_1 + 252o_1 = 10842w_1$$

$$\text{II. } 7104w_2^1(c_2^1+v_2^1+m_2^1) - 325[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 1r_2 = 6621w_2(v + \Delta v) + 1r_2 + 158o_2 = 6780w_2$$

$$\text{III. } 975w_3^1(c_3^1+v_3^1+m_3^1) - 16[w_3^2(c_3^2+v_3^2+m_3^2) - w_3^3(c_3^3+v_3^3+m_3^3)] + 1r_3 = 937w_3(m/x) + 1r_3 + 22o_3 = 960w_3$$

8).В 2006 году
 I. $9430w_1^1(c_1^1+v_1^1+m_1^1)+1575[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] + 22r_1 =$
 $= 10822w_1[8685c'+2137(c''+\Delta c'+\Delta c'')] + 22r_1 + 183o_1 = 11027w_1$
 II. $6958w_2^1(c_2^1+v_2^1+m_2^1) - 294[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 14r_2 =$
 $= 6553w_2(v+\Delta v) + 14r_2 + 111o_2 = 6678w_2$
 III. $987w_3^1(c_3^1+v_3^1+m_3^1) - 9[w_3^2(c_3^2+v_3^2+m_3^2)-w_3^3(c_3^3+v_3^3+m_3^3)] + 2r_3 =$
 $= 962w_3(m/x) + 2r_3 + 16o_3 = 980w_3$
 9).В 2007 году
 I. $10389w_1^1(c_1^1+v_1^1+m_1^1)+1131[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] + 83r_1 =$
 $= 11310w_1[8884c'+2426(c''+\Delta c'+\Delta c'')] + 83r_1 + 210o_1 = 11603w_1$
 II. $6958w_2^1(c_2^1+v_2^1+m_2^1) - 294[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 48r_2 =$
 $= 6580w_2(v+\Delta v) + 48r_2 + 122o_2 = 6750w_2$
 III. $534w_3^1(c_3^1+v_3^1+m_3^1) - 7[w_3^2(c_3^2+v_3^2+m_3^2)-w_3^3(c_3^3+v_3^3+m_3^3)] + 4r_3 =$
 $= 517w_3(m/x) + 4r_3 + 10o_3 = 531w_3$
 10).В 2008 году
 I. $10243w_1^1(c_1^1+v_1^1+m_1^1)+1215[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] - 1r_1 =$
 $= 11269w_1[8716c'+2553(c''+\Delta c'+\Delta c'')] - 1r_1 + 189o_1 = 11457w_1$
 II. $6942w_2^1(c_2^1+v_2^1+m_2^1) - 295[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] + 0r_2 =$
 $= 6537w_2(v+\Delta v) + 0r_2 + 110o_2 = 6647w_2$
 III. $621w_3^1(c_3^1+v_3^1+m_3^1) - 9[w_3^2(c_3^2+v_3^2+m_3^2)-w_3^3(c_3^3+v_3^3+m_3^3)] + 0r_3 =$
 $= 602w_3(m/x) + 0r_3 + 10o_3 = 612w_3$
 11).В 2009 году
 I. $9939w_1^1(c_1^1+v_1^1+m_1^1)+1119[w_1^2(c_1^2+v_1^2+m_1^2) - w_1^3(c_1^3+v_1^3+m_1^3)] - 43r_1 =$
 $= 10807w_1[8934c'+1873(c''+\Delta c'+\Delta c'')] - 43r_1 + 251o_1 = 11015w_1$
 II. $8011w_2^1(c_2^1+v_2^1+m_2^1) - 372[w_2^2(c_2^2+v_2^2+m_2^2) - w_2^3(c_2^3+v_2^3+m_2^3)] - 30r_2 =$
 $= 7466w_2(v+\Delta v) - 30r_2 + 173o_2 = 7609w_2$
 III. $323w_3^1(c_3^1+v_3^1+m_3^1) - 12[w_3^2(c_3^2+v_3^2+m_3^2)-w_3^3(c_3^3+v_3^3+m_3^3)] - 1r_3 =$
 $= 304w_3(m/x) - 1r_3 + 7o_3 = 310w_3$

Further calculations have allowed to determine the proportion of residents and non-residents in the domestic market, as well as the three sectors in the national economy (Table 3).

Table 3: Percentage and the implementation structure of the gross output of products and services of the three sectors in the domestic market of the Russian national economy between 1998 and 2009 (in percentage)

Year	Sec - tors W ₁ W ₂ W ₃ W	Share of residents in internal market of the sector	Share of not-residents in internal market of the sector	Share of residents and not-residents in internal market of the sector	Share of the sectors in the external trade turnover (export + import)	Share of the sectors in the consumption of the gross internal product	Share of the sectors in the consumption of the gross output	Share of the rest money of the sectors
1	2	3	4	5(3+4)	6	7	8	9
1998	W ₁	44,61	8,22	52,83	80,38	18,78	53,61	2,08
	W ₂	42,0	4,06	46,06	19,36	79,16	41,57	1,61
	W ₃	1,05	0,06	1,11	0,26	2,06	1,08	0,05
	W	87,66	12,34	100	100	100	96,26	3,74
1999	W ₁	39,81	8,71	48,52	81,37	16,94	53,31	1,16
	W ₂	39,42	4,84	44,26	18,24	69,60	37,35	0,81
	W ₃	7,11	0,11	7,22	0,39	13,46	7,22	0,15
	W	86,34	13,66	100	100	100	97,88	2,12
2000	W ₁	40,78	8,67	49,45	83,98	17,85	55,63	- 0,46
	W ₂	34,88	4,05	38,93	15,64	60,77	33,45	- 0,28
	W ₃	11,50	0,12	11,62	0,38	21,38	11,77	- 0,11
	W	87,16	12,84	100	100	100	100,85	- 0,85
2001	W ₁	48,09	8,06	56,15	82,55	24,52	58,99	1,35
	W ₂	35,82	3,80	39,62	16,99	67,33	34,59	0,79
	W ₃	4,12	0,11	4,23	0,46	8,15	4,17	0,11
	W	88,03	11,97	100	100	100	97,75	2,25

2002	W₁	47,17	8,17	55,34	81,45	23,63	57,20	1,93
	W₂	37,88	3,92	41,80	18,00	71,05	33,78	1,24
	W₃	2,74	0,12	2,86	0,55	5,32	5,76	0,09
	W	87,79	12,21	100	100	100	96,74	3,26
2003	W₁	47,18	8,15	55,33	82,64	22,62	57,86	0,96
	W₂	36,79	3,56	40,35	16,70	69,26	36,25	0,60
	W₃	4,16	0,16	4,32	0,66	8,12	4,26	0,07
	W	88,13	11,87	100	100	100	98,37	1,63
2004	W₁	47,08	8,13	55,21	84,93	22,37	57,46	0,80
	W₂	36,45	2,98	39,43	14,24	67,81	35,96	0,50
	W₃	5,16	0,01	5,17	0,83	9,82	5,21	0,07
	W	88,70	11,30	100	100	100	98,63	1,37
2005	W₁	47,16	8,25	55,41	86,45	22,60	56,98	1,37
	W₂	36,70	2,73	39,43	12,95	67,80	35,63	0,86
	W₃	5,04	0,12	5,16	0,60	9,60	5,04	0,12
	W	88,90	11,10	100	100	100	97,65	2,35
2006	W₁	48,41	8,25	56,66	87,42	23,42	57,92	1,10
	W₂	35,72	2,45	38,17	12,05	66,78	35,07	0,67
	W₃	5,07	0,10	5,17	0,53	9,80	5,15	0,09
	W	89,20	10,80	100	100	100	98,14	1,86
2007	W₁	51,79	8,45	60,24	86,96	27,19	58,89	1,55
	W₂	34,73	2,27	37,00	12,44	67,50	34,84	0,90
	W₃	2,66	0,10	2,76	0,60	5,31	2,74	0,08
	W	89,18	10,82	100	100	100	97,47	2,53
2008	W₁	51,22	8,65	59,87	88,29	27,41	60,21	1,00
	W₂	34,72	2,20	36,92	11,11	66,47	34,93	0,59
	W₃	3,10	0,11	3,21	0,60	6,12	3,21	0,06
	W	89,04	10,96	100	100	100	98,35	1,65
2009	W₁	48,94	7,21	56,15	84,16	20,81	57,08	1,10
	W₂	39,44	2,70	42,14	15,09	76,09	39,43	0,75
	W₃	1,59	0,12	1,71	0,75	3,10	1,60	0,04
	W	89,97	10,03	100	100	100	98,11	1,89

Thus, the transactional approach to the study of the economic system revealed a natural-material and value proportion and balance income and expenses in the three major sectors of the national economy: I. sector, producing capital goods and providing production services to organizations; II. sector, producing consumer goods and providing services to the population; III. sector, providing financial services to organizations and to the population.

Figures (Table 3) shows that the financial sector has a small share in the national economy: 1998. - 1.11 %; 1999. - 7.22 %; 2000. - 11.62 %; 2001. - 4.23 %; 2002. - 2.86 %; 2003. - 4.32 %; 2004. - 5.17 %; 2005. - 5.16%; 2006. - 5,17%; 2007. - 2.76 %; 2008. - 3.21%; 2009. - 1.71% (column 5), including the share of domestic financial and credit institutions in the domestic financial market was: 1998. - 1.05% 1999. - 7.11 % 2000. - 11.50%, 2001. - 4.12%, 2002. - 2.74%, 2003. - 4.16%, 2004. - 5.16 %, 2005. - 5.04 % 2006. - 5,07% , 2007 . - 2.66 % 2008. - 3.10 % 2009. - 1.59 % (column 3). On the one hand, this suggests that the domestic financial sector is being protected from foreign countries, but such a state can not meet the needs of the national economy. This is evidenced by the following indicators of the financial sector: the share of financial and credit services in the consumption of gross domestic product and gross output of goods. The first figure in this period had the following values: 1998. - 2.06 %; 1999. - 13.46 %; 2000. - 21.36% ; 2001. - 8.15%; 2002. - 5.32 %; 2003. - 8.12%; 2004. - 9.82 %; 2005. - 9.60 %; 2006. - 9.80%; 2007. - 5.31 %; 2008. - 6.12%; 2009. - 3.10 % (column 7), and the second was as follows: 1998. - 1.13 %; 1999. - 7.38 %; 2000. - 11.67 %; 2001. - 4.28 %; 2002. - 2.85 %; 2003. - 5.89 %; 2004. - 5.28 %; 2005. - 5.16 %; 2006. - 5.24 %; 2007. - 2.81 %; 2008. - 3.2 %; 2009. - 1.64 % (column 8). Consequently, there is a decline in the share of the financial sector in the national economy.

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TRANSACTION AND TRANSFORMATION SECTORS OF THE REGIONAL ECONOMY OF RUSSIA: FINANCE, TOURISM AND HOSPITALITY IN THE REPUBLIC OF TATARSTAN

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Abstract: *The main objective of this paper is to study the shortcomings in the development of economic activities and the national economy of Russia. To achieve this goal has been used transaction - sector methodology to the study of the Russian national economy and regional economy of the Republic of Tatarstan, as the most developed subjects of the Russian Federation. In addition, to study the structure of national and regional economies were applied empirical and statistical approaches to studying the transactional and transformational activities. As a result of studying the statistics data were discovered the factors that influence in the development of the individual segments of the transformational and transactional sectors of the national and regional economy.*

Key words: transformational and transactional sector, financial sector, tourism and hospitality sector

JEL classification: E2, E44, L83

1. Institutional theory of transaction and transformation sectors of national economy

An important part of modern institutionalism is the theory of transaction costs. The theory of transaction costs based on various transactions that take place between the participants of economic relations. The founders of the theory of transaction costs celebrated diversity of many transactions. Commons proposed a classification of transactions in the transaction controls and rationing, and gave them a description (Commons John R. 1931, p.652). Williamson did not consider the transaction of rationing in general and transaction of exchange he combined with transaction of control (Pessali H.F, Fernandez RG. 1999, p.265-275). Increase in transactions due to many factors, among them the expansion of the market, the specificity of assets and different types of ownership of the assets. The reason for the expansion of the market and the specific assets is the law of the labor division. Variety of types of property generates a large number of combinations of forms of property (about 1.5 thousand) (Becker L.S. 1977, p.21) and accordingly transactions.

Implementation of the transaction causes costs (transaction costs) by analogy with transformational activities. Transaction costs arise at the micro and macro levels of the economy. The first factor affecting the size and organization of transaction costs is the size of the market. First idea about the impact of this factor expressed by Adam Smith, who believed, when larger the market, then more impersonal and trade relations become, more complicated and costly transactions are (Smith Adam. 1976, Book I, chap. 30).

Founder of the theory of transaction costs Ronald Coase explained the reason for the existence of transaction costs in that market economy internally, by their very nature tend to have the costs of functioning of the market mechanism (Coase R. 1937, p.386-405). K. Arrow defined transaction costs as well as the costs of managing the economic system (Arrow K. 1969, p.48). Under the cost of functioning of the market mechanism R.Coase mean costs that are associated with the costs and expenses to find partners, gathering information, drafting of contracts, monitoring contract with the study and determination necessary or appropriate prices for goods and services, etc. (Coase R. 1937, p.386-405). In turn, the presence of the costs of functioning of the market mechanism causes the appearance of the company, since thanks to the company can reduce the amount of market transaction costs by transferring them from the market inside the organization. Decline in market transaction costs by moving into an organization in-house costs increase, as is an increase in the firm (Coase R. 1937, p.386-405).

The theory of transaction costs includes research related to the study of micro-economic level, or organization of various alternative transactions, such as markets, integrated firms and hybrid agreements (network firms). In his work "The Nature of the Firm" (Coase R. 1937, p.386-405) Ronald Coase raised fundamental problem of economic organization, which has an organizing role. Organization may intervene in market processes and even affect market transactions. Participants and market entities can organize their transactions directly through the market mechanisms or to resort to the organizing functions of the firm. Ronald Coase emphasizes the fundamental role of transaction costs in the process of institution-building, making economic system. Market as firm represents institute, the necessity of which is to reduce transaction

costs. In another study, Coase notes that only when the parties (buyers and sellers) negotiating, signing contracts, monitoring their compliance, when sharing mechanisms for participating brokers and dealers, then we can talk about the presence of transaction costs (R.Coase. 1992, p.8-15). Along with the growth of transaction costs increasing need for a more detailed specification of rights exchanged (Furubotn EG, Richter R. 1991, p. 259). As a result, the growth of transaction costs have incentives to develop mechanisms to make a large volume of transactions at a lower cost (Stigler George. 1968, chap.12).

Comparative advantage of the firm Ronald Coase called an opportunity to save on transaction costs. Degree of asset specificity is a factor in transaction costs, which affects the choice of certain administrative structures, particularly firms (Menard Claude. 1997, p.741 -751). D. North believes that even in a perfect market system objectively impossible to avoid increasing transaction costs (North Douglass C. 1991, p. 97-112). Douglass North in his work indicates that the amount of transaction costs substantially affect guide set of institutions in society (North D. 1992, p. 447-459). The emergence of market economies in all legal systems and institutions, orientated for the implementation of the laws of commerce, on the one hand, allow you to make transactions on a larger scale, on the other hand, increasing transaction costs.

Further development of the theory of transaction costs associated with the names of American scientists D. North and J. Wallis, who on the basis of the existence of transactional and transformational activities, as well as associated costs, proposed the concept of dividing the national economy on the transformational and transactional sector. All economic activities are divided into transformational and transactional. Transformational activities associated with natural-real transformation of material resources and the creation of new products. Transactional activities create the necessary conditions for the functioning of transformational activities and provide services to businesses and individuals.

For the classification of certain types of economic activity to the transactional functions North and Wallis identified the main features of the transaction services:

- Introduced the concept of transactional sector and established the existence of industries, providing transactions: finance, insurance, wholesale and retail trade, real estate agencies;
- Allocated transaction services within firms, which attributed all costs to π which do not have any product when consumed within the firm, as well as all costs associated with the costs of the organization and management firm;
- Implemented a division of transaction costs arising on the relations between individual buyers and sellers, within firms, in collaboration with intermediaries and in connection with the protection of property rights;
- Designated institutions in the public sector, which provide the commission transactions and transaction costs (Wallis John J., North Douglass C. 1986, p.118).

Under the transactional sector of the economy D. North and J. Wallis understood industries producing mainly transactional services. North and Wallis showed a tendency of growth in transaction sector in the United States from 1870 to 1970 (Wallis John J., North Douglass C. 1986, p.121). D. North and J. Wallis isolated poured the following three reasons for the growth of transaction costs for the 100-year period for the U.S. economy: increasing specialization and division of labor, technological change in the production and transportation, increase the state's role in the relationship with the private sector. The study covered the following areas of activity: wholesale and retail trade, finance, insurance and operating real estate.

Institutional units engaged in various transformational and transactional activities are grouped into sectors: mining, processing, agricultural, financial, transport, communications, trade, energy, social security, insurance, banking, physical culture and sports, education, health and medical services, defense and military-industrial complex, research, tourism and hospitality, and others. Consider the value of certain types of economic activities in the Russian Federation and its constituent Republic of Tatarstan, as well as define the structure of sectors of the national and regional economies.

2. The structure of the national and regional economy of the Republic Tatarstan

Characterize the structure of the economy and the aggregate consolidated statistical indicators system of national accounts. Major macro economic indicators of development of Russia are gross output (BB) and gross domestic product (GDP), and subjects of the Russian Federation, the gross regional product (GRP). Regional Economy of the Republic of Tatarstan is a significant player in the national economy of the Russian Federation. Gross regional product (GRP) of the Republic of Tatarstan in current prices in 2012 was (according to preliminary statistics) about 1,400 million rubles (2.2% of Russia's GDP). If the value of gross domestic product (gross value added at basic prices) in 2011 the Russian was 45,265.2 million rubles,

The Republic of Tatarstan, it amounted to 1,275.5 million rubles (2.82% of Russia's GDP). By volume GRP regional economy of the republic took the 5th place among 83 subjects of Russia after Moscow, Tyumen region, Moscow region, St. Petersburg. By the level of gross regional product per capita annually republic took in 2011 place number 11 among 83 subjects of the Russian Federation. The following table 1 shows the structure of the national economy of the Russian Federation (RF), territorial economy Volga Federal District (PFD) and the regional economy of the Republic of Tatarstan (RT) by economic activity and gross value added.

Table 1: The structure of economic activities in the gross value added of the Russian Federation, Volga Federal District and Republic of Tatarstan in 2011
(as percent of total and current prices, in million rubles)

N	Gross value added (total and including economic activities)	Russian Federation and subjects in percent (million rubles)	Volga Federal District in percent (million rubles)	Republic of Tatarstan in percent (million rubles)	Share RT in RF in per- cent	Share RT in PFD in per- cent
1	2	3	4	5	6	7
1	Total:	100(45265,2)	100(6987,5)	100(1275,5)	2,8	18,3
2	Agriculture, hunting and forestry	4,7(2127,5)	7,2(503,1)	7,2(91,8)	4,3	18,2
3	Fishing, fish farming	0,2(90,5)	0,0	0,0	0,0	0,0
4	Mining and quarrying	11,4(5160,2)	13,6(950,3)	22,7(289,5)	5,6	30,5
5	Manufacturing	18,0(8147,7)	23,7(1656,0)	17,4(221,9)	2,7	13,4
6	Production and distribution of electricity, gas and water	4,4(1991,7)	4,8(335,4)	3,0(38,3)	1,9	11,4
7	Construction	6,9(3123,3)	7,0(489,1)	9,7(123,7)	4,0	25,3
8	Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods for personal use	19,5(8826,7)	13,5(943,3)	14,0(178,6)	2,0	18,9
9	Hotels and restaurants	1,0(452,7)	1,0(69,9)	1,0(12,8)	2,8	18,3
10	Transport and communications	10,0(4526,5)	9,1(635,9)	7,7(98,2)	2,2	15,4
11	Financial activities	0,6(271,6)	0,5(34,9)	0,5(6,4)	2,4	18,3
12	Real estate, renting and business activities	10,6(4798,1)	7,6(531,1)	8,6(109,7)	2,3	20,7
13	Public administration and defense; Social insurance	4,7(2127,5)	4,4(307,5)	2,5(31,9)	1,5	10,4
14	Education	2,9(1312,7)	3,1(216,6)	2,4(30,6)	2,3	14,1
15	Health and social services	3,7(1674,8)	3,6(251,6)	2,2(28,1)	1,7	11,2
16	Other community, social and personal services	1,4(633,7)	0,9(62,8)	1,1(14,0)	2,2	22,3

The main economic activities in Russia for their share in the GDP are: wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods for personal use (19.5%), manufacturing (18.0%), mining (11.4%), real estate, renting and business activities (10.6%), transport and communications (10.0 %), which is 69.5 %. In Russia, the most important economic activities: construction (6.9%), agriculture, hunting and forestry (4.7 %), fishing, fish farming (0.2 %), production and distribution of electricity, gas and water (4.4 %), education (2.9 %), health and social services (3.7%) accounted for 22.8% of gross value added (column 3 of Table 1).

The Republic of Tatarstan is one of the 83 subjects of the Russian Federation and one of the 14 subjects of the Volga Federal District. When the share of the regional economy of the Republic of Tatarstan in the amount of 2.8% in the Russian economy, the share of certain activities in the national economy of the Russian Federation was a higher rate of: agriculture, hunting and forestry - 4.3%, mining – 5.6 %, construction - 4.0% (column 6 of Table 1).

In accordance with the methodology D. North and John Wallis to net transactional economic activities include (according to the statistics presented in Table 1) financial affairs; operations with real estate, renting and business activities; public administration and military security, social insurance, education, health care and social services. These transaction activities in the creation of gross value added in 2011 were: the Russian Federation - 22.5 %, in the Volga Federal District - 19.2%, in the Republic of

Tatarstan - 16.2% (columns 3, 4, 5 of Table 1). As evidenced by the statistics in the Republic of Tatarstan share transaction of economic activities (excluding wholesale and retail) in the gross value added is lower than in Russia, but at the same time the share of their significant in the gross value added of the Volga Federal District (column 6, 7 of Table 1). Transaction activities of the Republic of Tatarstan in the gross value added of the Volga Federal District were: financial activities - 18.3%, real estate transactions - 20.7%, education - 14.1%, public administration - 10.4% (column 7 of the table 1).

In the Republic of Tatarstan in 2011 functioned 103545 organizations of 4 million 866 thousand 620 in Russia or was centered about 2.13 % of all registered organizations in Russia (or every 47th) and 14.24% of the organizations of the Volga Federal District (or every seventh organization was Republican). On February 1, 2013 in the Statistical Register of the Republic of Tatarstan was considered 108 320 businesses. Most of the organizations of the republic is based on private ownership. The Republic of Tatarstan state and municipal ownership was represented only 9.9% of organizations, of which 4.49% were the organization provides education, 3.03 % - Public administration and defense, compulsory social security, 0.64 % - other community, social and personal services and 0.46 % - health care and social services (total - 8.62 %). On February 1, 2013 the main legal form of organizations in the Republic of Tatarstan is a commercial organization, registered as business entities - 78.93 %.

Number of organizations implementing transactional activities (excluding wholesale and retail trade), in the Republic of Tatarstan was 19,202 units or 17.7% of the total number of organizations, including the forms of ownership are as follows: state and municipal - 8.29 %, private - 11.06%, mixed - 0.58 % of the total number of organizations respectively state and municipal, private and mixed forms of ownership.

The main factor of economic development is human resources of the region. The economically active population in the Republic of Tatarstan in 2011 was 1,946,000 people or 51.38 % of the total population (3,787,500 people). The largest share of employment accounted for the following types of employment: Manufacturing - 17.6% , wholesale and retail trade, repair of motor vehicles, motorcycles, household goods and personal items - 16.7%, construction - 10.6%, agriculture, hunting and forestry - 10.0%, education - 9.3%; operations with real estate, renting and business activities - 7.2 %, transport and communications - 6.9% (of 78.3%). A significant proportion of the working population of the republic was occupied by small enterprises - 17.8 % of the average number of employees. Statistical calculations indicate that the attractive activities and employment in small enterprises are: operations with real estate, renting and business activities - 54.84 % of the total number of employed in this sector, hotels and restaurants - 40.46 %; construction - 34.93 %, wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods for personal use - 26.67 % -12.58 % manufacturing, agriculture, hunting and forestry - 6.86 %. However, the least amount of wages was employed in medium and small enterprises, such as hotels and restaurants - 13,566.4 rubles.

3. The financial sector of the national and regional economy

By definition, D. North and John Wallis financial segment is part of the transaction sector of the national economy and forms the so-called «FIRE» or «finance, insurance and real estate». The author believes that the finance and insurance require a separate (from the real estate transactions) research due to the nature of financial, banking, insurance and securities transactions, as well as the relevance of globalization of the financial sector of the economy of each country. The financial sector of the national and regional economy characterize the public finances, finance corporations (organizations and companies), finance people, finance credit institutions (commercial banks and insurers).

Consider corporate finance and financial performance of companies and organizations and economic activities of the Republic of Tatarstan. Net financial result (profit minus loss) of organizations of Tatarstan in 2011 and 2012 respectively was as follows: 203,133 million and 246,818 million rubles. (growth rate of 121.5%). The largest profit in 2011 fell on the following economic activities: mining - (47.03 %), manufacturing - (30.23%), wholesale and retail trade, repair of motor vehicles, household appliances, etc. - (7.10%), transport and communication - (6.16%). In 2012, in the Republic of Tatarstan, 80.7 % of the organizations have made a profit, and 19.3% - a loss. Amount of the loss was the republic organizations 1.67% of the total losses in Russia.

Financial position of corporations republic is better than the Russian average. For example, the net financial result of the enterprises of the Republic of Tatarstan in 2011 amounted to 2.73 % of the total result for the Russian Federation, and 23.27 % of the organizations of the Volga Federal District. Average profitability of items sold organizations on all kinds of economic activities in the Republic of Tatarstan in

2012 amounted to 11.3%, while the current ratio 176.5 %. Current ratio organizations of the Republic of Tatarstan on all economic activities on January 1, 2013 amounted to 176.5 %. If the share of unprofitable enterprises in Russia in 2011 was 30 %, while in the Republic of Tatarstan, he was - 24.7% (PFD - 28.5 %). In the Republic of Tatarstan in 2011, the amount of investment in fixed assets was 3.58 % of total investments in Russia and 22.91 % of the total investment of the Volga Federal District.

The financial sector of the regional economy of the Republic of Tatarstan includes advanced credit (bank) and insurance segments. Banking and insurance sectors of the economy of the Republic of Tatarstan, not only occupy the first place in the Volga Federal District, but also the leading position in the Russian Federation. Financial resources raised by credit institutions of the republic as of January 1, 2013 amounted to 743.5 milliard rubles; household deposits reached 302.2 milliard rubles; balances entities amounted to 311.4 milliard rubles; total assets reached 955.6 milliard rubles, total loans and advances amounted to 659.6 milliard rubles; loans to the economy amounted 456.2 milliard rubles, a population of 157.7 milliard rubles, the total amount of authorized capital credit institutions of the republic amounted to 60.1 milliard rubles; net financial result - 8.8 milliard rubles. The Republic of Tatarstan is superior to other regions of Russia on the total number of credit institutions and the number of large banks (2nd place after Moscow), as well as a large concentration of banking capital. In Russia, the share of credit institutions registered with an authorized capital of more than 1 milliard rubles was about 18%, and in Tatarstan was two times higher than the national average. In 2012, the credit institutions of the republic was granted new loans to legal entities and individual entrepreneurs totaling 267.3 milliard rubles.

Insurance segment of the financial sector of the republican economy is more developed in comparison with other regions of Russia. In the Russian Federation in 2011 was collected 856.9 milliard rubles of insurance premiums including: the Moscow region - 135.0 milliard rubles, Tyumen region - 42.9 milliard rubles, Kemerovo region - 29.1 milliard rubles, St. Petersburg - 28.6 milliard rubles, Republic of Tatarstan - 21.9 milliard rubles (6th place in Russia). The insurance premium per capita republic in 2011. amounted to 8876 rubles per person, or 122.3 % by 2010. In 2011. the share of compulsory insurance accounted for 57.1% of premiums collected (in 2010 - 56.5%). The share of voluntary insurance was 42.9% of premiums (in 2010 - 43.5%). In 2011, the share of the Volga Federal District (excluding the Republic of Tatarstan) had premiums 1.79 % and 2.07 % of payments, and the share of the Republic of Tatarstan, respectively, 1.73 % and 2.18 % of total by Russia. Share of the Republic of Tatarstan in the total amount of insurance premiums for voluntary insurance Russia amounted to 1.12 %, on compulsory insurance of 2.18%, while the share of the Volga Federal District (excluding the Republic of Tatarstan), respectively - 1.27 % and 2.19 % in including personal insurance republic's share was 1.66 % versus 1.27 % of the Volga Federal District.

In 2011, 514 insurance organizations of Russia, the greatest number of insurance companies registered in Moscow - 228 organizations, Moscow region - 40, St. Petersburg - 31, Sverdlovsk region - 18, Kemerovo region - 16 organizations, the Republic of Tatarstan - 15, Samara Region - 14, Tyumen region - 13, Rostov region - 12, PrimorskyKrai - 10 organizations. Since 2002. number of insurance companies in the Russian market continues to decline steadily, only in 2011 compared with 2010. their number decreased by 14.3 %. The number of branches of insurance companies carry out insurance activities by the end of 2011 decreased compared to the previous year by 5.1 % and amounted to 4332 units, of which 4,316 branches (99.6%) was within the Russian Federation. The average number of branches per insurance company remained at the level of 2010 and amounted to 8 units. Currently in Tatarstan insurance activities carried 74 branch nonresident insurers from other regions of Russia.

Structure of insurance premiums by type of insurance in Russia was as follows: compulsory insurance - 57.1%, corporate property - 13.5%, personal property - 12.3%, medical - 7.6%, from accidents and illnesses - 3.6%, life - 2.7%, liability - 2.3% and business and financial risks - 0.9%. The Republic of Tatarstan structure of insurance premiums in 2011 and 2012 respectively, was as follows: compulsory insurance - 57.98 % and 59.62%, corporate property - 20.43 % and 23.59 %, property of individuals - 8.2% and 2.99 %, medical - 6.14 % and 4.63 %, of the accidents and illnesses - 2.52 % and 4.09 %, life - 3.3% and 3.43 %, responsibility - 1.33 % and 0.98 %, business and financial risk - 0.1 % and 0.05 %. In 2012, the share of agricultural insurance premiums amounted to 2.5%, including 2.11% of state support; subsidy amount for reimbursement of the costs of agricultural producers to the payment of the insurance premium of 0.95%.

In 2011 insurance reserves totaled 582.5 milliard rubles (in 2010 - 506.3 milliard rubles). In 2011 net financial result (profit minus loss) of insurance companies amounted to 42.2 milliard rubles (in 2010 - 38.1 milliard rubles). Net profit amounted to 36.0 milliard rubles (in 2010. 33.4 milliard rubles). In

2011 the results of the activities of insurance companies 440 (85.6% of total) made a profit of 45.2 milliard rubles volume, which was higher than the level of 2010 7.4 %. 74 activities of insurance companies (14.4%) was unprofitable (in 2010 - 14.2%), the amount of loss in 2011 amounted to 3.0 milliard rubles. Net financial result of insurance companies of the Republic of Tatarstan in 2011 amounted to 1.94 % of total by Russia and the Volga Federal District (excluding the Republic of Tatarstan), 0.8 % of the total in Russia. The share of insurers to profit in 2011 amounted to 100% (in the Russian Federation - 85.6%; PFD - 95.8 %).

The average size of the charter capital of insurance companies amounted to 346.0 million rubles (2010: 258.6 million). Distribution of insurance organizations authorized capital in 2011 was as follows. The number of insurance companies amounted to 514 units with an authorized capital of: up to 20 million rubles - 0.8 %, to 40 million rubles - 8.4 %, to 60 million rubles - 10.5 %, to 80 million rubles - 8%, to 100 million rubles - 1.9% and more than 100 million rubles - 70.4 %. The volume of deposits of foreign participants in the charter capital of Russian insurers amounted to 13.7 milliard rubles (7.7% of the share capital of all insurance companies). One of the most important indicators of the level of development of insurance in the national economy, is the ratio between the amount of insurance premiums (contributions) and gross domestic product (GDP) or a record level of insurance penetration in the economy. In the Russian Federation, the ratio of volumes of collected insurance premiums to GDP during 2005 to 2011 remains at the same level - 2.3 %, lower than the global figure. Another indicator of the development of the insurance market, was the size of the insurance premium per capita, which in 2011 amounted to 8876 rubles per person, or about 300 U.S. dollars.

4. Sector of tourism and hospitality in the regional economy of the Republic of Tatarstan

In recent years, the regional economy of the Republic of Tatarstan forms of tourism and hospitality sector. Tourism and hospitality sector combines as transformational, transactional and economic activities. First, tourism and hospitality segments interconnected. Tourism as a form of migration can not be done without the development of a network of hotels, restaurants and cafes (catering). Secondly, the tourism and hospitality sector depends on the development of transport service, the provision of medical, cultural, sports, educational, commercial, financial and other services. Types of tourism development depends on the particular attractiveness of the region and the presence in the region:

- Sports facilities (sports arenas and fitness halls), which give rise to sports tourism;
- Medical centers and hospitals, causing health tourism resort;
- Higher education institutions that promote educational tourism;
- Museums, monuments of architecture, theaters and exhibition halls, promoting cultural tourism;
- Shopping centers, showrooms, trade fairs, promoting tourism trade;
- Businesses, organizations and commercial banks, research centers and technology parks, business innovation activating tourism.

Third, the development of tourism and hospitality sector contributes to attracting financial resources, human capital, modern technology, intellectual resources, foreign investment. When developing a business, trade and tourism research, it helps to improve the transactions and contracts. When improving sport, health, medical, educational, and cultural forms of tourism and hospitality extended respectively, while increasing social and economic investment in human capital as a result also contributes to the quality of transactions. Therefore, these types of tourism and hospitality must be offered to the transactional type of economic activity.

Tourism and hospitality sector in the regional economy of the Republic of Tatarstan consists of the following institutional units: operators and travel agencies, hotels and restaurants. Segment of tourism in the regional economy of the Republic of Tatarstan develop 389 tourism companies, including 8 for tour operators, travel agents 353, 24 organizations involved in tourism and other 4 - only sightseeing activities. The volume of paid services to the population in tourism in 2012 amounted to 1,932 million rubles, which represented 9.67 % of the total in the Volga Federal District and 1.59 % of the total in Russia. Number of realized tourist vouchers to the population in 2012 was 125,600 units, including the territory of Russia - 27.0 thousand units in foreign countries - 98 600 pieces totaling respectively - 721.4 million rubles and 5179.0 million rubles. Distribution of the number and cost of travel packages and the number of tourists by type of tourism in 2012 was as follows: the number of tourists visiting tourism amounted to 75 %, while domestic - 25%; sold by value vouchers foreign tourism amounted to 88.0 %, while domestic - 12%

Travel agencies served in the Republic of Tatarstan in 2012 243,000 tourists from other regions of the Russian Federation, including 180.8 thousand for outbound tourism and 60.9 thousand domestic

tourism. In addition, in 2012 the Republic of Tatarstan with different goals came citizens from other regions of Russia, the former Soviet Union and other countries. Number of persons placed in collective accommodation was in 2012 1,479,500 people, including citizens of Russia - 1,414,400 citizens; from European and American countries 41,600 people, citizens of the former Soviet Union countries - 23.6 thousand people. Targets stay persons accommodated in collective accommodation, divided in 2012 as follows: leisure, recreation and holidays - 611,0 thousand people, education and training - 67,200 people, treatment and prevention - 132,700 people, business and professional trips - 485,700 people. This was made possible thanks to 331 units of collective accommodation facilities available in the region, including 232 units hotels and similar accommodation, as well as 14,359 housing units Room collective accommodation facilities. Utilization room fund (cash seats) was 0.35.

Tourism and hospitality sector is reflected in the international system of national accounts as an economic activity, which is carried out mainly in small and medium organizations (hotels, restaurants and travel agencies). Output of services (at basic prices) and the gross value added of hotels and restaurants in the Republic of Tatarstan, respectively, were as follows: in 2008. - 19916.9 million rubles and 11166.8 million rubles, in 2009 - 20640.7 million rubles and 10205.2 million rubles, in 2010 - 23798.5 million rubles and 11901.1 million rubles, in 2011 - 25224.5 million rubles and 12247.7 million rubles. Share registration services (at basic prices) and the gross value added of hotels and restaurants in the Republic of Tatarstan, respectively, was as follows: in 2010 - 1.1% and 1.2% in 2011 - 0.9 % and 1.1 %, respectively, while in Russia: in 2010 - 1.0 % to 1.0% ; in 2011. - 0.9 % to 1.0%. Major economic indicators of medium and small organizations engaged in hotel and restaurant business are shown in Table 2.

Table 2: Key economic indicators of hospitality organizations in 2011-2012

N	economic indicators	2011г.	2012г.
1	2	3	4
1.	Average number of employees, people	-	12971
2.	The share of workers in the total number of small businesses, percentage	-	3,9
3.	Average monthly wage (rubles) and the proportion of the average for the economy (in percent)	-	18481 (72,5)
4.	Turnover organizations (million rubles) and the share of the total turnover on the economy (in percent)	-	12308,0(1,98)
5.	Number of enterprises (units) and share in the total number (in percent): medium; small	1137 6 (1,1); 1131 (2,5)	1246 4 (0,8); 1242(2,6)
6.	Average number of employees with the pluralists (people) and the proportion of the total number of small and medium enterprises (percentage): middle; small	17239 1118 (1,6); 16121 (4,6)	14473 676 (1,1); 13797 (3,9)
7.	Turnover (million rubles) and share in the total turnover of medium and small enterprises on the economy (in percent): middle; small	11042,1 391,7(0,1) 0650,4(2,1)	12656,4 348,4(0,2); 2308,0(2,0)
8.	Average number of employees per company (people): average; small	-	169; 11
9.	Turnover per enterprise (million rubles): average; small	-	87,1; 9,9
10.	Turnover per employee (thousand rubles): middle; small	-	515,3; 892,1
11.	Average wages of workers of enterprises (rubles): average; small	-	16975; 18481
12.	Investments in fixed capital goods (thousand rubles) and their share in the total amount (in percentage): medium; small	19988 (0,2); 8065 (0,1)	48947 (0,5); 32058 (0,2)
13.	Capital and reserves (million rubles) of businesses: middle; small	5,8; 712,8	3246,9; 1286,7

<i>N</i>	<i>economic indicators</i>	<i>2011z.</i>	<i>2012z.</i>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
14.	Net financial result (profit minus loss) of enterprises (million rubles): middle; small	5,9; 261,7	157,0; 436,4
15.	The number of profitable enterprises (units) and their share in the total number of enterprises (percentage): middle; small	2 (100); 163 (73,4)	4 (100); 225(78,9)
16.	Profitability of services enterprises (percentage): middle; small	12,9; 9,0	26,5; 11,6
17.	Return on assets of enterprises (in percentage): medium; small	6,8; 12,7	4,2; 10,4
18.	Current ratio enterprises (percentage): middle; small	268,7; 184,0	457,2; 171,0

According to statistical data segment of hospitality in the regional economy of Tatarstan is a positive trend: increasing trade and investment in fixed assets, increasing capital and reserves, profits and number of profitable organizations and supported the return on assets. However, the negative side of the activities of hotels and restaurants is high growth in prices for hotel services and restaurants. For example, increased: the cost of the day spa with 1550.6 rubles in 2009 to 1956.6 rubles in 2012, the cost of the day stay in a holiday home and pension with 1044.1 rubles in 2009 to 1313.1 rubles in 2012, the price of hotel accommodation per person per night with 1091.8 rubles in 2009 to 1248.4 rubles in 2012, the cost of lunch at the restaurant in the afternoon and dinner in the restaurant on one person, respectively, with 614.6 rubles and 1438.8 rubles in 2009 to 741.0 rubles and 1838.8 rubles in 2012. The above figures reduce growth of tourists. In addition, the lowest average number of employees and wage workers in restaurants and hotels are not conducive to improving the quality of customer service. These statistics indicate that the regional economy of the Republic of Tatarstan has considerable reserves and prospects of development of the tourism and hospitality sector.

5. Conclusions

As a result of transaction - sector approach to the study of the Russian national economy and regional economy of the Republic of Tatarstan was found that transformational economic activities exceed the transaction. Structure transformation sector of the economy has significant drawbacks, which are expressed in the fact that poorly developed such types of financial activities such as agriculture, fisheries, forestry, construction, transportation, manufacturing industries and, conversely, unreasonably large share of extractive industries, wholesale and retail trade.

The negative side of the transactional state sector of the economy is the low share of financial credit, scientific, educational, legal, travel and social activities that delay the development of market relations. This situation is explained by the fact that in the regions of Russia is slowly developing transactional economy. Regional Economy of the Republic of Tatarstan in contrast to other regions of the Russian Federation, a significant share not only in the territorial economy of the Volga Federal District, but also in the national economy of Russia. She has considerable financial-credit and tourist potential, the financial sector and the tourism and hospitality sector. World Trade Organization established for the financial sector of the Russian economy and created positive conditions for the development of financial and credit activities in the regional economy of the Republic of Tatarstan. The development of the tourism and hospitality sector in the Republic of Tatarstan contributes Kazan Universiade, which was held in 2013.

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PROFITABILITY UNDER LABOUR RELATED TAX SAVINGS. EVIDENCE FROM ROMANIAN LISTED COMPANIES

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Abstract: *Labour related taxes were always seen as a major obstacle for doing business in Romania. Using alternative employees' compensation (e.g. meal tickets), companies are able to partially avoid such taxes, and consequently, the resulting tax savings may have a positive impact on their profitability and related financial ratios. Using an unique dataset for Romanian listed companies, the paper computes financial ratios and performs simulations in the absence/presence of employees' alternative remuneration for the Bucharest Stock Exchange non-financial listed companies. The results showed an improvement of profitability ratio (ROA) as a consequence of granting meal tickets instead of cash, but the effect is small. From a policy perspective, increasing the amount of meal tickets available to employees might trigger more tax savings and hence increase profitability.*

Key words: labour related taxes, tax savings, profitability

JEL classification: H32, J38, M52

1. Introduction

Labour related taxes are regarded as a major impediment for doing business in Romania. In spite of the fact that Romania enjoys one of the lowest statutory corporate income tax rates in Europe of only 16%, tax rates are still perceived as one of the most problematic factors for doing business in Romania. For instance, the World Economic Forum Global Competitiveness Reports usually rank tax related issues among the first half of the restraining factors for business. In 2010, tax rates and tax regulations were ranked as the first and respectively the seventh (out of 15) barriers against business, while in 2011, they were ranked on the second and respectively the fifth position. Moreover, in terms of total tax rate, Romania occupies 14th (2010) and respectively 15th (2011) rank among European Union member states. Total Tax Rate (TTR) is based on Djankov et al (2010) and is jointly used by World Bank and PricewaterhouseCoopers in their Doing Business/Paying Taxes surveys, designating the total tax burden based on the tax wedge triggered by corporate income tax, non-profit taxes and labor related taxes. When labour related taxes are removed from the picture, the Romania's ranking improved consistently. Several well-established corporate effective tax rates methodologies, namely Devereux – Griffith (Devereux and Griffith, 1998, 2003) and European Tax Analyzer (Jacobs and Spengel, 2000), rank Romania in terms of corporate effective tax rates among European Union member states on the fifth and respectively on the fourth position in Europe, which is consistent with Romania's low statutory corporate income tax rate.

In this framework, tax-planning strategies meant to decrease the burden triggered by labour related taxes are highly appreciated from the corporate standpoint. A tool at hand in this respect is granting meal tickets to employees. These tickets do not bear any employers' social security contributions, hence decreasing the overall corporate public finance tax bill. The objective of the paper is to evaluate the extent of meal tickets remuneration among the Romanian listed companies, to compute the corresponding tax savings and to assess their impact on firms' profitability (return on assets - ROA). Briefly, we seek an answer to the following research questions: 1. How big are tax savings triggered alternative employees' compensation?; 2. Could they turn a loss making firm into a profitable one?; 3. How much does profitability increase as a result of labour tax savings? On this basis, we can evaluate if making use of such alternative ways of employees compensation really represents a boost for the businesses involved.

2. Data and methodology

The theoretical background of the paper resides in the fact that the tax savings triggered by meal tickets are capitalized by companies, thus increasing their net income, and consequently, firms' financial ratios get better. One must take into account that employers' social security contributions are tax deductible when computing corporate income tax liability, therefore, after-tax savings are computed according to this formula:

$$TS = MT \cdot (1-t) \cdot c$$

TS = tax savings

MT = amount of meal tickets granted to employees

t = statutory corporate income tax rate

c = aggregate statutory social security contributions rate

The dataset comprises all non-financial companies listed at Bucharest Stock Exchange. Data was carefully hand collected from corporate publicly available reports. Since disclosing data concerning meal tickets began in 2004, the period taken into survey lies between 2004 and 2011. A summary of dataset is presented in Table 1.

Table 1: Dataset summary

No. of company-years	479
No. of company-years who granted meal tickets	397
No. of company-years who did granted meal tickets	56
No. company-years missing data	26

Source: Author data

In Romania, the aggregate social security statutory rates for which the legal burden falls on the companies stand for almost 28.1% of the gross monthly earnings (2011). A comparison to other EU member states is difficult to make because of the variety of the social security systems in place in different jurisdictions. Nevertheless, using Doing Business portal and OECD tax database, we have been able to rank Romania on 16th position (out of 27) in European Union in terms of statutory aggregate social contributions rates for which the legal incidence falls on the employer (data for 2012). We summed up all the statutory social contributions rates borne by employers which are levied on a regular basis and have gross salaries as tax base. When statutory rates were expressed as intervals, we took into account the average of the interval. For instance, in Romania, employers have to pay a contribution to accident risk fund of 0.15% – 0.85% of monthly gross salaries. For the purpose of this research we took into consideration a statutory rate of 0.5%. In addition, there are others surveys (KPMG, 2011) which rank Romania on 15th position (out of 24; from EU-27 member states in 2011, only Estonia, Lithuania and Slovenia were not covered by the survey; the employer statutory aggregate social security rates were 34.4% in the case of Estonia, 31.18% in the case of Lithuania and 16.1% in the case of Slovenia (data compiled from Doing Business portal and OECD tax database) in terms of effective employer and employee social security rates corresponding to an annual gross income of 300,000 USD. Consequently, Romanian companies have to deal with relatively high employers' social contributions rates which increase their payments to public finance. During the time span taken into survey (2004 - 2011) the statutory social security contributions rate were subject to various changes, which are summarized in Table 2.

Table 2: Social security contributions rates in Romania during 2004 – 2011 (%)

	2004	2005	2006	2007	2008	2009	2010	2011
Pension insurance	22	22	19.75	19.5	19.375	20.6	20.8	20.8
Unemployment insurance	3.208	3	2.5	2	0.96	0.5	0.5	0.5
Health insurance	7	7	7	6	5.475	5.2	5.2	5.2
Accidents and risks insurance	0.5	2.25	2.25	2	1.2	0.5	0.5	0.5
Medical leave	.	.	0.75	0.85	0.85	0.85	0.85	0.85
Wage claims guarantees	.	.	.	0.25	0.25	0.25	0.25	0.25
Aggregate SCR	32.708	34.25	32.25	30.6	28.11	27.9	28.1	28.1

Source: tax legislation

With regard to corporate income statutory tax rate, the only change took place in 2005 when the tax rate dropped from 25% to 16%.

Descriptive statistics for meal tickets granted by Bucharest Stock Exchange companies are presented in Table 3.

Table 3: Descriptive statistics for meal tickets

Stats	Meal tickets (RON)	Meal tickets (% of turnover)	Meal tickets (% of total assets)
N	453	453	453
mean	1319382	1.087264	.84298
median	643165	.7991931	.5804275
min	0	0	0
max	9307878	6.706903	7.499208

Source: Author data

The mean value of meal tickets is 1.08% of turnover, while the amount is lower when reported to total assets (0.84). Nevertheless, the maximum amount is quite impressive, reaching to 6.70 % of turnover and 7,5% of total assets. The median is lower than the mean in both scenarios (turnover and total assets).

3. Results

Given these data, we are able to compute the firms' profitability (ROA) in two alternative scenarios. The first one consists in computing ROA based on the real situation of the company, using data from publicly available financial statements. The second one consists in computing ROA for the hypothetical scenario in which firms would have chosen not to grant meal tickets to their employees, but instead to compensate them by cash, which triggers a corresponding social security contributions burden for employers. In order to make data comparable we performed these computation only for firms who granted meal tickets to their employees (n = 397). The results are presented in Table 4.

Table 4: The impact of meal tickets on firms' profitability (ROA)

Stats	ROA (scenario 1)	ROA without meal tickets (scenario 2)	Difference ROA (p.p.)
N	397	397	397
mean	2.280524	2.03491	.2456138
median	2.479858	2.1541	.1648569
min	-116.6507	-116.8183	.000144
max	82.10118	81.27039	1.839743

Source: Author computations

The results show that by granting meal tickets to employees, companies have been able to increase profitability by 0.24 p.p. in average. This might not seem much, but in relative terms the average percentage increase is about 12%. The tax savings triggered by meal tickets have a relative small impact on firms' ROA, but nevertheless the impact is present. Moreover, looking into the data we found that 14 companies manage to turn losses into profits as a result of meal tickets. The biggest increase is for manufacturing industry (0.28 p.p.), the lowest is for commerce (0.1 p.p.) The biggest p.p. increase is in 2004 (0.42), the lowest is in 2010 (0.125).

4. Conclusions

The paper evaluates the impact of labour tax free remuneration of employees on firms' profitability, for non-financial companies listed at Bucharest Stock Exchange. While the tax savings from social security contributions might be important in terms of cash flows, the impact on firms' ROA is in average 0.24 p.p. Making use of such alternative remuneration is widely spread among Romanian listed companies. From 453 company-years for which data was available, 397 (87.63%) granted meal tickets. Although the effect is not convincing, for loss-making companies or for those with high labour intensity, granting meal tickets may be an appropriate tax planning strategy, especially when social security contributions rates are high (as it is the case of Romania). From a policy perspective, increasing the amount of meal tickets available for employees may increase their positive impact on firms' profitability, acting as a desirable tax incentive.

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HOME INSURANCE – A WAY TO PROTECT THE POPULATION IN CASE OF NATURAL DISASTERS AND OTHER RISKS

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Abstract: *The insurance market is not mature, companies are not reinsured and do not cope with paying the compensation to customers. Being unsatisfactory in terms of the number of insurance policies, the policy of attracting customers is confronted with the lack of education of the population regarding the need to purchase a mandatory home insurance policy, actually followed by fines due to law enforcement. The competition between the insurance companies focuses not only on reducing the price of insurance policy but also on promoting attractive products to customers and seriousness in covering damages.*

Key words: compulsory insurance, voluntary insurance, legislative changes, PAID, insurance companies.

JEL classification: G22, G220.

1. Introduction

In Romania there are about 8,5 million households, according to statistics, classified by type of construction. Frequent flooding with extensive coverage in the country plus the earthquakes in the Vrancea region led to the development of the Law no. 260/2008, republished, on compulsory insurance of housing, based on the conclusions of experts hired by the Romanian government and the World Bank; they place Romania among the countries with the highest seismic risk, with losses that may exceed 4,4 billion euros, as the vulnerability of about 350,000 houses is due to the lack of consolidation of structures affected by the major earthquakes in 1977, 1986 and 1990.

2. Insurance companies' involvement in promoting housing insurance

Insurance Pool Against Disaster (PAID) made the first map showing the six flood risk areas with high exposure to the floods from rivers or Danube (Capital Magazine, no. 36, 2013), with the following distribution on counties:

- very high risk: Braila, Tulcea;
- high to very high risk: Galati, Ialomita, Olt, Teleorman;
- high risk: Dolj, Giurgiu, Hunedoara, Ialomita, Maramures, Salaj;
- medium risk: Arad, Bacau, Bihor, Cluj, Constanta, Caras-Severin, Dâmbovița, Iasi, Mehedinti, Neamt, Satu Mare, Timis, Vaslui, Vrancea;
- medium to low risk: Alba, Arges, Covasna, Ilfov, Mures, Sibiu, Suceava, Valcea;
- low risk: Bistrita-Nasaud, Botosani, Brasov, Buzau, Gorj, Harghita, Ploiesti.

The population faced with these risks, depending on the level of exposure to major ones, namely floods, landslides and earthquakes, evaluates differently the need to ensure household / dwelling through a compulsory or optional insurance.

In late June 2013, there were in force 4.5 million home insurance policy, the share of housing ensured by policy in total housing varying between 15% (Vaslui) and 51% (Sibiu), while almost all households in Bucharest have insurance, but these disparities are justified by population's income according to data (Capital Magazine, no. 43, 2013) published by the Financial Supervisory Authority, the National Statistics Institute, the National Union of Associations of Insurance and Insurance Pool Against Disaster (PAID).

Compulsory Insurance against Disaster (PAD) finds purpose because is made according to the principle of solidarity, applying the same level of insurance premium for any home. The insured amount for Type A housing is the equivalent in lei of the amount of 20000 Euros at RNB exchange rate in force at the conclusion of the mandatory home insurance contract and the amount insured for Type B dwellings is

the equivalent in lei of the amount of 10000 Euros at the RNB exchange rate in force at the conclusion of contract.

The law provides that every person or legal entity is required to secure the housing owned to qualify for compensation in case one of the natural disasters, the uninsured being not able to receive compensation from the state budget or local authorities for damages to property.

Since 2013, the Insurance Supervisory Commission was replaced by the Financial Supervisory Authority that monitors the application of the rules governing the form and content of any contract of compulsory home insurance.

The insurance market is not mature, many companies are not reinsured and do not cope with paying the compensation to customers. On the other hand, there is no real auditing of insurance companies.

Some insurance companies that have a portfolio for home insurance have advanced attractive insurance products to stimulate the customer's purchase decision.

The UNIQA Insurance, through its policy Housing & Comfort - Complete home insurance, offers three packages: Sure, Plus and Advantage, the last one completely covering risks of fire, explosion, lightning, falling aircraft, storm, collision with vehicles, earthquake, hail, flood, weight of snow or ice, avalanche, collapse of buildings, slip and fall to the ground, leaking water pipes, break of breakable goods, property theft or robbery burglary and vandalism.

Asirom Vienna Insurance Group provides the insurance product My Home with three types of coverage: Standard, Disaster, Total, but also additional coverage, and focuses on reinsurance so that property of the insured person is protected by complex reinsurance programs.

The company Generali Romania offers Eurocasa product in a variant that protects against the risk of natural disasters and those with high frequency: water systems failures, theft, vandalism, liability to third parties.

It should be noted that the number of policies is influenced by the degree of coverage of the mandatory conclusion by the population of a dwelling insurance policy whether one PAD or a voluntary one. Education in the field of insurance is low in rural areas or where there were no major catastrophic events, unlike urban areas where customers opt for the extended versions coverage.

Mandatory policy is a product that can boost sales of optional home insurance, if we consider that the PAD only cover natural disaster risks, while the optional insurance is a product that can be configured according to the specific customer.

A situation of the main indicators, according to ISC, for the voluntary insurances in 2010-2012, is reflected in the following table:

Table 1: Evolution of the main indicators for voluntary household insurance

Indicators	2010	2011	2012	Evol. Absolută 2012/2011
Number of contracts in force at the end of year (pcs.)	1.714.393	4.392.647	3.324.910	-1.067.737
Gross written premiums (lei)	376.111.856	638.532.825	565.773.166	-72.759.659
Gross premiums ceded to reinsurance (lei)	98.716.925	130.750.782	154.127.843	23.377.061
Share of gross premiums ceded to total gross written premiums (%)	26,25	20,48	27,24	6,76
Gross paid claims (lei)	62.427.424	47.013.398	76.678.178	29.664.780

Source: Insurance Pool Against Disaster (PAID)

From the second half of 2013, any voluntary insurance for housing must be issued with PAD franchise, meaning that any person who signs a home insurance policy will have a PAD policy and subsequently an insurance optional able to take over the supplementary sum assured over 10/20000 euro for the three disaster risks and other risks chosen by the insured. For insurers the package PAD + optional

policy is a reduction in premium incomes and the reduction of gross written premiums (PBS) would determine a pursuit of clients, even attracting them from other insurance companies.

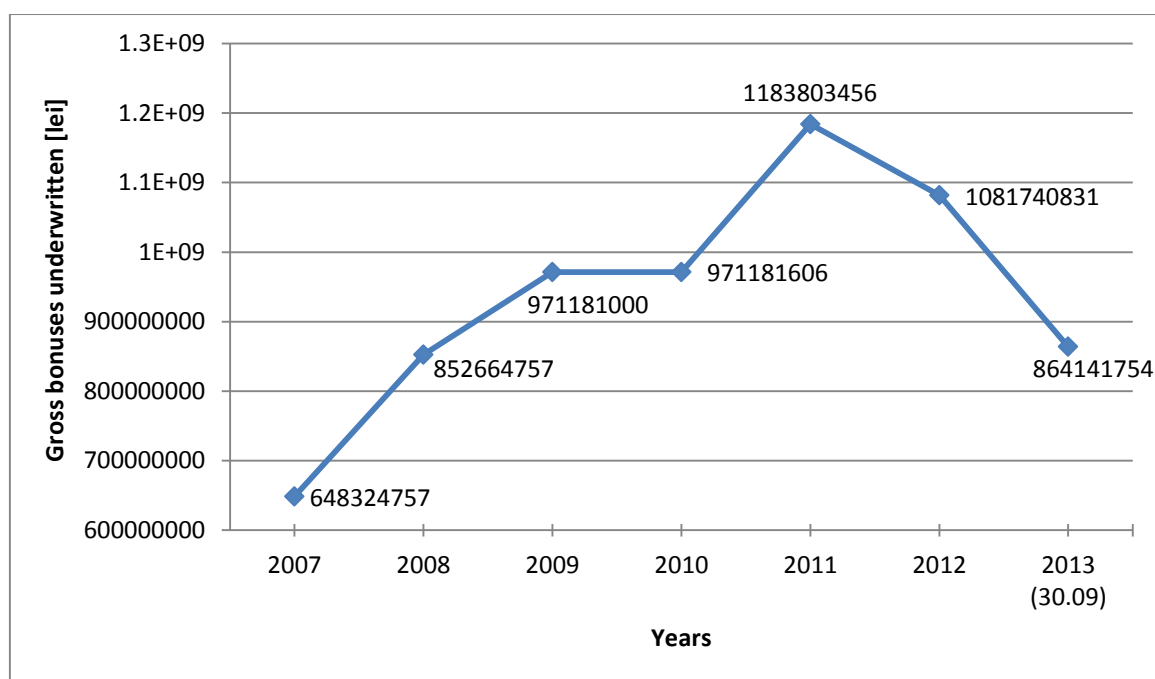
The Financial Supervisory Authority (FSA) welcomes the possibility of introducing a franchise of compulsory insurance, namely an obligation to pay of the insured as well in case one of the risks covered by the PAD occurs, which FSA considers symbolic as not to increase insurance premium whose value is 10 and 20 euros.

Franchise, as part of the cost passed on to the insured, aims to eliminate low damage and reduce insurance premiums, the franchise value having to take into account the value of the property insured. Since the franchise is a result of motivating the insured in protecting his own property, the individual may exaggerate the size of damage in order to make the insurance company cover the total damage. Increasing the insurance premium or introducing a franchise is a FSA policy meant to prevent situations when expenses are greater than compensation insurers insured, so decreasing any fraud. FSA also stresses the obligation of all homeowners to conclude compulsory insurance policy issued by PAID. According to the National Union of Insurance and Reinsurance Companies (Finance, Banking, Insurance Magazine, no. 10, 2013), the number of mandatory home insurance policies will reach 1,000,000 at the end of 2013 and optional insurance policies will amount to 3000000 .

Volatility of underwritings on the home insurance market has influenced the number of policies especially as there were changes in the legislation.

According to data provided by the ISC the gross written premiums for home insurance during 2007 - September. 2013 had an evolution as shown in the following figure:

Figure 1. Evolution of gross written premiums in Romania for insurance class VIII (Fire and other natural disasters)



The fact that there is no promotional campaign on home insurance throughout the country but promotion of this type of insurance is concentrated in a few areas of the country, especially in big cities, explains the oscillating percentage of mandatory or voluntary insurances.

The home insurance issued under the PAID is the cheapest but not the most complete. PAID is an insurance company that has cash and may satisfy its obligations to pay damages because it is concerned by that, working with brokers and reinsurers well positioned in the world hierarchy of reinsurance companies such as the reinsurance broker Aon BENFIELD.

Statistics presented by PAID for PAD in 2010-2012 is presented in Table no. 2.

Table 2: The situation of indicators for compulsory housing insurance in 2010-2012

Indicators	2010	2011	2012	Evol. Absolută 2012/2011
Number of contracts in force at the end of year (pcs.)	367.287	574.229	331.131	-243.098
Gross written premiums (lei)	29.556.829	35.310.758	24.200.893	-11.109.865
Gross premiums ceded to reinsurance (lei)	19.066.609	25.883.655	14.424.191	-11.459.464
Share of gross premiums ceded to total gross written premiums (%)	64,51	73,30	59,60	-13,70
Gross paid claims (lei)	10.369	327.310	276.689	-50.621

Source: Insurance Pool Against Disaster (PAID)

For other insurance companies has grown the competition in attracting the most important segment of customers, trying to make them acknowledge the need for an insurance policy in line with their needs, both in terms of sums insured and risk. Population reacts negatively to the decision to purchase mandatory insurance to protect their properties, either for lack of education in the domain of the protection of property through insurance, poverty or the question "What happens to the insurance money?". As a result, the business plans of insurance companies are affected and there is decrease in the coverage of homeowners insurance; it is obvious the confusion in choosing the company with the best reputation that should run different promotions for the same form of insurance, especially in the context of insurance becoming mandatory for all catastrophic risk.

A fact ascertained in most areas of the country is that the most important element in the decision to purchase an insurance is the price, unlike the big cities or the capital where customers are attracted by the quality of service, coverage provided and the reputation of the insurance company and far less by the price criterion.

3. Conclusions

It can be appreciated that the evolution of the number of compulsory insurance policy is unsatisfactory due to an incomplete action in order to educate citizens awareness on the need to ensure housing, the lack of fines if a policy of this type is not signed and frequent legislative changes that created confusion in the mind of possible customers. Many insurance companies have lost credibility as a result of the irregularities, resulting from poor management of funds, discovered by FSA controls, underestimation of damage by 40 %, redirection of money to various companies through intercompany loans and failing to honor obligations in case of disasters. The lack of control of insurance companies was really obvious when the leadership of insurance companies decided to give very high salaries, bonuses and incentive holidays at the end of years to managers, causing financial damage to companies. In this way, the reluctance of customers to an area that has not been proven rigorous, corroborated with the lack of specialists in leading the insurance companies, was politically ensured.

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IMPLEMENTATION OF KAIZEN MANAGEMENT SYSTEM AS A COST CALCULATION AND RESIZING METHOD KAIZEN COSTING IN ROMANIAN AGRICULTURAL AND ZOOTECHNICAL ENTITIES

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Abstract: *In periods of crisis and not only, the survival and prosperity of agricultural and zootechnical entities in our country is also achieved through the application of the management system, cost calculation and resizing method called Kaizen Costing.*

Kaizen is a Japanese management concept initiated by Masaaki Imai, which proved to be the key to Japan's competitive success.

The essence of the Kaizen concept is "change" "for good", meaning "continuous improvement". This continuous improvement is represented by gradual, slow and continuous improvements of the production process with minimal costs.

Kaizen method prioritizes the entity employees that are motivated to participate consciously and responsibly in achieving the entity's objectives.

Key words: Kaizen Costing, management system and cost calculation, competitiveness, maintenance and improvement

JEL classification: M41

1. INTRODUCTION

In the last quarter of the century characterized, among other things, as an acceleration of the internationalization of economic activity, where the increasing globalization of markets, with the rapid technological changes determine the organizations in all fields to find new, innovative solutions of continuous improvement of own performances in order to achieve superiority over the competition, managers are looking for solutions in order to ensure growth of economic benefits, improve the quality of products, works and services, increase customer satisfaction, motivate employees, incite investors, etc. within their organizations.

In many sectors, including agricultural sector in general and zootechnical sector in particular, the competition has evolved worldwide and the production industrialization, the pace of innovation to products, works and services have increased considerably. This phenomenon has had a positive impact on consumers because increased competition generated lower prices, better quality and more options for selection.

However, last period is characterized by unavoidable changes for most businesses, as well as for the employees. Several managers have concluded that established ways of doing business are no longer working and we have to implement appropriate programs in the administration of the organization's activities. These new programs are so important that some analysts consider them as the second industrial revolution.¹³

When properly implemented, these programs can help increase the quality of products, works and services, reducing costs, increasing efficiency, eliminating delays in response time to customers and ultimately increasing profits.

This revolution has an effect on management accounting practice. It would be very difficult for an organization to become a leading international entity if it designs, manages and controls the operations and makes decisions using a management accounting system of the second category. An excellent management accounting system does not guarantee success, but a weak one may hamper efforts of the organization's employee to generate competitiveness.

Crisis conditions are increasingly difficult for an organization manager to implement a program, a successful strategy or to adopt a technique or method of calculation able to provide **cost** type information enhancing effectiveness.

The economic environment in our country currently is totally unpredictable and aggressive in terms of competition. Despite this economic and financial turbulent environment, there are concerns for the

¹³ Seal, W., Garrison, R., Noreen, E. - Management Accounting, McGraw Companies, Great Britain, 2006, p. 10-13.

initiation and implementation of management methods and techniques likely to lead to the foundation of an operating system for tracking costs.

Such concerns should be increasingly evident in agricultural production in general and in zootechnical production in particular. The quality of zootechnical products and their insurance costs put the agricultural and zootechnical entities through the hoop.

An agricultural and zootechnical entity, in competition with others like, needs to be the best in its category or better than its competitors on a global scale, agricultural and zootechnical production being of strategic importance. This includes the principles of TQM (Total Quality Management) and those of "learning organization" synergistically.

"*Quality* means the continuous satisfaction of the customers' demands, *total quality* involves the continuous satisfaction of the customers' demands in terms of minimum cost, and *total quality management* ensures continuous satisfaction of the customers' demands in terms of minimum cost, involving all employees".¹⁴

2. KAIZEN COSTING SYSTEM IN ZOOTECHNY

Performance improvement of agricultural and zootechnical entities in our country, along with the optimal exploitation of management accounting information, can also be achieved through **KAIZEN COSTING (KC)** strategy.

KAIZEN is a Japanese management concept whose founder is Masaaki Imai, which proved to be the key to Japanese competitive success.

The word *Kaizen* comes from the Japanese language and it was formed by joining two words: *KAI* = *change* and *ZEN* = *for better* and the translation is "*continuous improvement*." This continuous improvement is reflected in daily gradual, slow but continuous improvements of the production process, which takes place at minimal cost.

Unlike the concept of *Target Costing (TC)* that is used by the design team prior to the manufacturing process, *Kaizen Costing (KC)* is used by the production personnel during product manufacture.

Although both Target Costing and Kaizen Costing pursue a target, the way of establishing the respective target is different: at Target Costing the starting point is represented by the customer considerations and the goal of Kaizen Costing is to achieve profitability of targets set by managers.

If Western management is characterized by total major changes, even at long intervals, with high consumption of resources and high costs, Kaizen Costing proposes practical approaches involving low cost and ensuring a long-term continuous progress.

Kaizen Costing strategy is focused on improving each process of the technological sheet of a product on the principle of small steps, the main purpose being eliminating losses and minimizing costs. By applying small steps strategy, resources are insignificant and costs are minimal, while strategies based on innovations involve large investments, although the results are relatively the same.

Kaizen places in the foreground the entity employees motivated to participate consciously and responsibly in achieving the objectives of the entity.

Implementation of Kaizen Costing management system in agricultural and zootechnical entities in our country could bring immediate gains through: *eliminating lavishness and losses, increase labor productivity, reduce operating costs and their resizing, reduce surfaces used, reduce the need for equipment and increase use of the remaining, increase staff motivation.*

As a cost calculation and resizing method, Kaizen Costing does not pay attention to the product, but to the manufacturing process, which makes it more than just a cost method, being a comprehensive management tool. By applying this management style in managerial accounting, agricultural and zootechnical entities with fewer resources could considerably diminish the negative impact of the current financial and economic crisis.

We need to understand the foundations of this concept in order to know and apply the Kaizen Costing management system: **5S; Muda; Visual Management; Standardization; PDCA/ SDCA.**

5S represents the 5 steps of proper maintenance: *seiri (sorting), seiton (ordering), seiso (cleanliness), seiketsu (standardization) and shitsuke (support).*

Seiri involves sorting items (objects) from *gemba (workplace)* in "necessary" and "unnecessary" and elimination of the latter ones, this leading to increased ability of employees to work efficiently.

¹⁴ Tabără, N., Briciu, S. - News and Perspectives in Accounting and Management Control, TipoMoldova Publishing House, Iași, 2012, p. 120

Seiton assumes that necessary items (objects) remained after the elimination of the unnecessary items must be ordered and sorted ergonomically by flow imposed by technology, minimizing search time and effort.

Seiso refers to cleanliness in the workplace, in whole.

Seiketsu defines standards (rules, customs, standard procedures) that staff must report in measuring and maintaining the degree of order and cleanliness.

Shitsuke consists of self-discipline, that is discipline and compliance with the 4 previous steps.

The essence of the 5S is to respect what was agreed, and "employees must follow the rules established and agreed at each stage, and when *shitsuke* comes, they are already trained to follow the rules in their daily work."¹⁵

Muda means loss, lavishness and it refers to a large range of activities that add no value when applied in management.

The engineer **Taiichi Ohno** (Toyota) indicates the following categories of *muda* in *gemba*: *the muda of overproduction, the muda of stock, the muda of defect, the muda of movement, the muda of process, the muda of waiting and the muda of transport*. All these must be removed.

Visual management is the ability to understand the status of a production area in 5 minutes or less, with a simple observation, without using a computer and without speaking to anyone. It is the timely implementation of corrective action when an abnormal situation or irregularities in the process occur.

Visual management is a practical method for determining the situation where everything is under control and send a warning when something abnormal occurs.

Standardization means that everyday activities are carried out in accordance with certain agreed formula, i.e. standards. It is necessary not only to maintain standards, but to improve them continuously.

There are two types of standards:

- managerial standards needed to conduct staff for administrative purposes;
- operational standards that describe how employees perform QCD (quality, cost, delivery time).

PDCA / SDCA:

If defects occur in **gemba** or customers are not satisfied, the management must identify the causes, take remedial measures and change the working procedure in order to eliminate the problem. This is achieved through the implementation of the cycle: standardize - do - check - act (SDCA). Now the process is under control. The next step requires modification of the state of things and improvement of standards. This requires the implementation of the cycle: plan - do - check - act (PDCA).

Therefore, SDCA standardizes and stabilizes the current processes (maintenance) and PDCA improves them (improvement).

Maintenance and **improvement** are two inseparable concepts in Japanese management. The improvement is analyzed by two terms: *Kaizen* and *innovation*.

3. CONCLUSIONS

Quality of management is a vital prerequisite for obtaining competitive advantages and withstanding competitive mechanisms.

It is very important for the manager to know how to interpret accounting information, but at the same time, the professional accountant should master the management principles in order to streamline the activity of the entity.

Agricultural and zootechnical entities in Romania currently must fight not only to survive, but to thrive, and this is achieved through the application of the *management system, cost calculation and resizing method called Kaizen Costing*, ensuring in this way a continuous improvement.

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THE RELATIONSHIP BETWEEN PROFIT AND THE PRICE OF THE PRODUCT

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Abstract: *The formation of the profit rate under normal conditions presents a considerable theoretical and practical interest because it identifies with the first approximation, the initial one, of profit in the price of the new product. If we consider the capitalization degree of inputs in a branch of production, the rate of return could be considered an exogenous factor for the evaluation of the net effect. In the production process of the company, however, the effect of managing inputs for the manufacturing of the new product is taken into account, and this category also has the characteristics of endogenous factors that act in pricing.*

The profitability rate under normal circumstances should be the result of the global market mechanism operation, both by capitalizing inputs and through the process of selling goods at national level and beyond. It is noteworthy that the result of the net economic effect in the new product price structure is not reduced to the global market functioning, resulting in normal profitability. Finalizing the size of this category is performed in the market functioning of the marketed product.

On the competitive market, in order to decipher the respective process, a separate analysis of both the supply and the demand for the new product is required.

Keywords: profit and profit rate, price product: negotiated, normal, competitive, offer price, selling price.

JEL classification: E3

1. Profit, the Basic Element of Surplus Results

1.1. Profit in the Offer Price

In order to define the market of the new product and the reports associated to this segment with the mega aggregate of the globalized market a *marketing research* must be conducted. This study takes into account the full range of products and items that satisfy a homogeneous group of beneficiaries needs, as well as the goods substitutable or subject to consumption by association. In this case, *the product market is the core element of the marketing research*. On the product market, options are manifested, ranked by priority or by competition, both for the allocation of the resources required to implement the manufacturing of new products, and for the approximation of revenues that define *the demand for the products concerned*.

The functioning mechanism of the product market is influenced by the solvent demand of users, but its effective functioning also depends on the management of inputs for the manufacturing of the good. Manufacturing companies, in this case, proceed to increasing the net economic effect. They may act directly in the production process by *optimizing the offer*. The first information about the assessment of the net effect obtainable in the production process is received from the *normal rate of return*. It should be emphasized *that the profit mass for the new product is influenced, mostly, by the level of costs and may increase proportionally with them*. For example at a normal rate of return of 15% and average costs of 10 monetary units, results a mass of profit of 1.5 m.u. / product and can double in terms of doubling the costs, provided that the product price be negotiated with the users at offer level.

Given the ever more enhanced globalization character of industrial production, it is absolutely necessary to *increase the level of autonomy of manufacturing companies*, by triggering their own mechanisms of superior capitalization of inputs in the manufacturing of new products. In competitive activity, *offer ranking by companies is hampered by the attraction for high costs*, which always lead to the formation of high prices per unit of product and the blocking of negotiations on the sale of products. In this situation, the manufacturing company cannot act directly on sales, but only through the offer, namely the production manufactured.

At a high cost production it is necessary to supplement the resources which are sometimes limited, such as basic raw materials, and this *requires the company management to proceed to the optimization of resource coverage, reflected favorably in the offer of products*.

Through the study that can be done on a product market, companies are required to increase the degree of capitalization of inputs by *optimizing the offer of products*, in which an important place is occupied by *direct actions on the level of costs*. These actions turn into a continuously operating mechanism, because the results obtained are intended to directly influence the mass of the profit, polarizing the interests of producers.

However, production costs can be reduced both in terms of absolute value and in terms of relative value in comparison with those achieved in similar products. The relative decrease in costs is achieved, on the one hand by improving the technical, economic, aesthetic and functional parameters of products which have the same costs, and on the other hand by improving those superior features of the value in use, with some increase in the level of expenditure. In this regard it is important to quantify these changes in the well-known relation, "expense - properties - product" for beneficiaries.

Ensuring comparability of costs in order to assess the growth of net economic effect is not without difficulties. Therefore, in new products, by their nature, costs can not be compared, and the only criterion for their optimum substantiation is represented by the company's own efforts in capitalizing inputs.

The only certain elements for the comparison of costs, consist of the sphere of action of the market on the product, and their reduction is measurable and has an object only in terms of the product range that integrates within the product market.

2. Profit in the Price of the Seller

Here, the price of the seller means the selling price of the goods manufacturing company. ***In the offer price, the approximation of profits by normal profitability rate is restricted to the sphere of the processes of the production function.*** Estimating profit plays an important role in substantiating new technology options, consumption of materials and workforce, other expenses, in the preparatory phase of price documentation and preparing for the manufacturing of the new product.

The product manufactured is destined for sale and ultimately for the productive or individual consumption and the impact on the level of profit within the price, axiomatic in terms of the production function, is due primarily to the demand function of the new product, i.e. the combined action of the competitive market of products.

The first approximation of profits for the new product is influenced by the size of the demand consisting of solvent revenues of users and the functionality of technical - economic parameters for them. In this context, the manufacturing company is required to correlate the demand with its output, by a substantiated sizing of its production capacity, taking into account the demands on the product market, the location and the specific weight of the new product in its structure.

Marketing studies, concerning the market of the new product, which can be made either by the manufacturer or trading units or specialized economic research units or all together, are aimed at the combined approximation of production inputs capitalization, in conjunction with the final demand. ***For the formation of the selling price (offer), no matter where market research is conducted it is important to combine the interests of producers and beneficiaries, by optimizing the correlation between the volume of production and the needs of demand.***

Assessment of the joint action of the production function and the demand on the production price level (negotiable price) can be done starting from the designed production capacity within the limits subject to the final demand. In this context, this dual determination factor has direct effects on the level of total costs and the production price (negotiable) per unit of new product in terms of applying a normal rate of profit.

Practice has demonstrated that ***the formation of the unit price*** (production price → negotiated price → selling price) under the influence of the product's market tends to be delimited by the size of the two relevant variables: the minimum level of production costs on the competitive market and the level at which the volume of production balances out with the demand. Knowledge of these elements enables the company management to make a decision in determining the price of the new product under negotiation.

Satisfying the demand with new goods on the competitive market is achieved only when the interests of producers and users of the manufactured products merge. For this, it is necessary to substantiate the projections in the field of unit prices development, which is based on their structural trend research, where profit holds the most important place. ***Unit pricing highlights the action of factors that lead to an increase in the mass of profit and to corresponding changes in the rate of profitability.*** Once initiated and maintained the growth trend of mass profit does not necessarily become automatic. This trend is based on the ability of the competitive market to renew products on a large scale, on new technical bases, according to the differentiated growth process of the demand in a dynamic economy. As is well known, the effects of this process at manufacturing firms are favored by legislation in the field, where prices are formed and freely negotiated under the joint effect of supply and demand, with some exceptions provided by law.

The volume of profit is sometimes influenced by the duration of the new product maturity, corresponding to the optimization of production and its marketing. Therefore, the longer this phase is as large

a number of products, the more pronounced the growth trend of mass profit is. Consequently, the mass of profit should in each stage of the product maturity, remain relatively unchanged.

Another form of profit growth is the competition within the price formed (determined) for negotiation, by reducing production costs below the required minimum level in product design. At a given technical level in the company's production process, after the product design phase, pre-calculated costs must undergo a downward curve whose values can include or not certain reserves only in special cases provided for in the rules of manufacturing.

During the production process, the possibility to achieve a higher profit acts as an emulation factor in reducing costs by using new conditions emerged after the product design. The competitive compression of costs below the limits projected, used to substantiate the level of prices for new products, envisages conducting economic processes in the life cycle of a product and especially in its maturity stage. However, most of the cost reduction is connected to the possibility of introducing technical progress to as great an extent as possible, for the renewal of highly competitive products.

The upward trend of profit is a manifestation of the action of the labor economics law, in the normal functioning of commodity production in the competitive market, recognition of the form of net income as an engine for future development, both at micro and macroeconomic levels. At this latter level, profit is one of the forms of presentation of national income, and underestimation of the need to increase it means blocking activities that the human society greatly needs

2.1. The Upper and Lower Limits of Profit

Depending on the evolution of economic processes in the competitive market, the *economic time of the profit* can be presented, on the one hand, as a *future stage*, in relation with the commencement of the new product manufacturing, or as an *outdated stage*, on the other hand, if the production continues after the action of the labor economy stops. This dynamic size of the net income as a result of commodity production and commercialization thereof is achievable only if the economic variables on which it depends reach specific values from calculations that can be approximately predicted.

Determining prices based on estimates of the optimal profit ever since the launch of the production and marketing of the new product and keeping them unchanged until it becomes economically and technically obsolete, does not always meet the requirements of a competitive economy and their optimal dimension classification. The competitive market has shown us that the mechanical application or perpetuation of profit economic time, in pricing decisions, stand as a hindrance to progress and the improvement of economic processes.

If the manufacturing company makes the decision to operate only with the profit economic time in price formation then the level of prices under negotiation, will act as a guillotine on the real economic processes in the competitive market. It must be acknowledged that higher profits in the starting production stage tend towards an upper limit whose size is determined by economic processes underway. Creating new products is a necessary manifestation of the competitive economic structure, while promoting technical progress. With this in mind, labor consumption is expressed as a creator of material values and is notable not only in high costs, but also in a high net income. The upper limit of the volume of profit also accelerates the process of achieving the optimal production capacity of the company.

In analyzing the profit's tendency towards its upper limit, some clarifications are needed. From a theoretical perspective, the profit achievable in the beginning for one new product tends to be as high as that obtained at optimum capacity. The actual competitive economy showed us that industrial production does not trigger in such parameters. Launching production is performed at a specific size of the series, determined by technical and economic conditions at the commissioning of production objectives. It is recognized that only in some cases the profit's volume can reach its projected capacity.

Economic reality has shown us that there are factors that reduce the size of the net revenue the profit tends towards from the very beginning. In this regard, a special place is occupied by the demand for the new product, sized by the revenues formed for this purpose. The revenues which guarantee the solvency of the demand are usually variable measures. These revenues are formed at first, and later change their volume through a competitive process, which consists in attracting through endogenous forces other income-oriented products. It is recommended not to launch and manufacture new products in conditions of economic invariants.

The effects of interdependent variables in the price formed and then negotiated have different sizes in time distancing themselves considerably from those in the beginning, especially during the stage of optimal capacity production with ensured sales. It should be emphasized that modifying factors (diminishing ones) in terms of time of profit volume are quite numerous: costs related to the assimilation in production of the new

product, starting from research, licensing and up to prototype realization, specific product release advertising costs etc. In relative terms, however, the approximate size of the profit from the launch in production of the new product is expressed as the difference between total revenues and total costs. At the commissioning of the objective, profit tends to equate the highest balance of the same variables, corresponding to the optimal capacity with sales secured, after having been influenced by the effect of diminishing factors.

The economic variables, on which the price of the new product formed and then negotiated depends, at optimum production capacity with sales secured, constitute reference elements in approximating the price determining factor, namely the mass profit. Higher share profit in the price and higher rate of profitability determine the acceleration of the steps to achieve the optimal capacity for the multiplication of likely results. In this context, even before achieving the economic time of profit and cost, competitive economy laws "force" companies to switch from the launch price to the normal (negotiated) price of the optimal mass production.

Practice has shown us that in the period of time between two price levels intermediate stages may appear, with prices decreasing. Between the highest and lowest price level of a new product, intermediate steps take lower values due to lower costs. The profit mass continues to tend towards its maximum volume. Since costs decrease in the production function is a continuous process and price negotiation can take place only at certain intervals, profits made between stages increase consonant with that reduction.

Of particular significance in the company's competitive economy is the delimitation of the upper limit of profit through differentiation of the normal rate, on the one hand, and the lower limit thereof, on the other hand. If with the first it is hard not only to measure it precisely but also to make an approximation, the latter can be inferred from the downward trend in prices.

In some cases, after exceeding its normal level, the profit driven by economic processes on a downward slope tends to zero, as its lower limit level. The gradual reduction of profit, a real and ordinary economic phenomenon, is determined by the evolution of the production and sales function, after labor the labor economy has reached its limits. Generally, over time, the economic factors that underpinned, formed and negotiated the price degrade. This occurs after long periods of time, in situations where the production and sale is not automatically terminated, but continues to higher expenses. The underlying causes of such a phenomenon are multiple. Thus expansion of production over projected capacities will increase costs. Also expanding supply beyond demand triggers additional costs for small changes in the parameters of products, increasing the role of advertising, building and maintaining inventory. After some time, the requirements to balance the production and sale in accordance with supply and demand require attracting new users with less financial possibilities, given the price reduction.

Normally, the shift from optimum production and sale to greater volumes thereof does not generate immediate losses, the evolution towards this outcome being longer and more nuanced. If there is no change of options when total costs begin to get close to total revenues, factors to terminate production come into action. From the moment in which the increase in demand (with sales secured) becomes dominant, production continues and when the profit tends toward zero, it signals the discontinuance of the labor economy law. Normally, maximizing offers when sales are secured is only operable for elastic products based on the competitive market price.

The evolutions of profit between upper and lower limits represent an ongoing process and do not occur independently, but integrated into the dynamics of the consumption of labor. Parallel to the intensification or slowing down of the labor economy law action, deviations occur from this development, either in the sense of higher profit due to lower costs, or vice versa, as sometimes happens in economic practice. It is worth noting that the successive sizes of the labor consumption variable are directly reflected in the value of the new product, but not in the competitive unit price, which marks only the key stages of evolution. For the decision making process regarding the competitive price, quantitative differences underlying the price level are of interest: the launch price, the normal negotiated price, the revitalization price depending on an increase in demand or in the price without profit. The time necessary to achieve and shift from one level to another is different and depends mainly on the parameters of use of the product, the technical and economic capacity to diversify production, and the level and structure of demand. Practice has demonstrated that the longest duration can be recorded by normal negotiated prices which may be of the order of decades for classic products with inelastic demand. The time in which labor consumption appreciably changes, inevitably leads to changes in the negotiated price level or the reduction thereof, up to the practice of a single form, the normal competitive price.

3. Conclusions

In conclusion, we can say that no matter how many successive price levels would form (determine) for a new product, economic processes require the approximation of at least two prices from as early as the design stage, namely the normal negotiated competitive price and the launch price. Therefore the mandatory landmark in the differentiation of profit and unit price is the normal negotiated competitive price. Should we watch the decline stage of the product, when profit tends to zero, this can not be the subject of their approximation with the development of project documentation.

The evolution of profit between the upper and lower limits, which along with the movement of costs substantiates the differentiation in the price of a new product, takes place under the conditions of carrying out the production at a given technical level.

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FINANCIAL EQUILIBRIUM IN ROMANIAN TOURISM INDUSTRY

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Abstract. *In the paper the authors present a study on the financial equilibrium in the Romanian companies. This way the authors take into account some information from financial reports and they use models which highlight the financial equilibrium of the tourism industry companies.*

Key-words: equilibrium, financial statements, risk

JEL Classification: G17, G32

1. Literature review

Enterprise development is inextricably linked to ensuring financial balance which is a constituent part of the economic balance expressed in value. Financial balance expresses equality and correlations between financial resource requirements and possibilities of collecting these resources. This balance is provided by way used business assets. (Bistriceanu, Adochiței, Negrea, 1995, p.254) Reached similar conclusions and Professor Ioan Trenca who believes that financial balance is a distinctive form of manifestation of economic equilibrium. In the current funding activities of the enterprise, and their development can be determined a lot of "location" of financial balance. (Trenca, 1997, p.84-85)

Such financial balance approach, highlights on the one hand the financial balance as part of economic equilibrium, and on the other form (or forms) of its expression, either gender working capital and working capital needs or that equality between other components of the financial position or performance issues that we share.

Professor Ioan Mihai together with his colleagues believe that the financial equilibrium in a simplified form, is defined by the equality of income and expenses. In a financial determination, however, the financial balance expresses the equality of financial resources and economic means of exploitation and long and short term trading. (Mihai, 1997, p.89) A view close to that expressed above is met and Professor Alexandru Babe, that the financial equilibrium of the company appears equality between income and expenditure and can exert autonomous the action intense retrospective of general economic equilibrium. (Babe, 1979, p.24) Also, analysis of the financial equilibrium of the company heritage, say other experts, aims to reflect the equality relations between the financing sources and uses of financial resources, between the income and expenditure conduct business activity on long, medium and short. (Eros Stark, Pantea, 1999, p.107) In the same vein, Mihai and Anișoara Adochitei professors believe that financial stability can be expressed at a given time by the equality between economic capital and resources formation between receipts and payments between the land use of funds and resources to cover their. (Adochiței M., Adochiței A., 1993, p.209).

If the shape of the financial balance that equality between sources and uses, a meet and the authors cited above, the form of expression of the financial balance between revenue and expenditure by gender reflects our opinion, alterations in the balance sheet as a result of the use of financial resources during financial year.

A comprehensive approach to financial balance we find in the works of Professor Ion Stancu, who believes that balance is the instrument of reflection of the company's financial balance at year-reflective material (by assets) of the use of equity and borrowed. (Stancu, 1994, p.29)

Financial balance equation is, according to the same authors:

$$FR = NFR + TN \tag{1}$$

From this relationship emerges the idea that the main component of the financial balance is the need for working capital, indicator whose size depends directly proportional turnover and can be predicted based on future policy management for the sales. (Stancu, 1994, p.40)

From the equilibrium equation presented by him to result, in our opinion the entity's ability to generate cash from operating activities. On the other hand, the correlation between the need for working capital and sales volume and forecasting the needs based on the entity's trade policy gives financial balance, a dynamic character.

Stressing the dynamic nature of business, Professor Gheorghe Manolescu (Manolescu, 2008, p.60-61), believes that the way of combining the three cycles assembly flows (operating, investing and financial - Ed), determines the financial equilibrium of the company hinged on a stock euro. A closer view of this we find the university professor Maria Niculescu who believes that the analysis of functional balance (Dynamic Financial Analysis - Ed) has to investigate the company's assets and liabilities, but understanding their needs and their way of funding, achieving a snapshot of the performance of different cycles (investment, operating, financing, treasury note). (Niculescu, 1997, p.377) A similar approach to these two meanings is met from other academics, that the economic and financial balance, is a system of correlations that establish certain proportionality within and between different financial flows. He is a prerequisite, but also a consequence of the normal course of business activity in accordance with its object. As a prerequisite, the correlations should be considered targets of material resource needs (in a general sense) and funding opportunities. (Stănescu, Ișfănescu, Băicuși, 1998, p.245)

Extending the scope of financial equilibrium, Professor Teodor Hada believes that financial balance, as part of economic equilibrium is given by the equality between economic capital and sources of formation between receipts and payments between funds and resources. (Hada, 1999, p.78) If the presentation of the financial balance as part of the economic balance is met and opinions presented above, expressions of it by equality between receipts and payments reflect dynamic entity's ability to pay, and equality of funds and resources reflect the static balance sheet equality classical "assets = liabilities".

University textbook authors "Enterprises Finance" opinion that the financial equilibrium (with equilibrium and balance of foreign currency), as part of the economic balance has a distinct function and forms of expression, because the objective existence of finance, the event functions of money, financial institutions banking and insurance in the transition to a market economy. At the enterprise level, this balance is based on economic relations characteristic of a market economy that the forms, methods and techniques participate in the formation and distribution of funds available to operators in order to achieve economic processes (production, marketing, etc.). (Antoniou, Adochiței, Cristea, Neagoe, Dumitrescu, Ilie, 1993 p.151) The same authors believe that the operators projecting economic and financial balance ... that appears in the budget of income and expenses and where its components are based on balancing between income (resources) and charges (destinations). ((Antoniou, Adochiței, Cristea, Neagoe, Dumitrescu, Ilie, 1993, p.151)

Professor Radu Florea believes that economic-financial equilibrium should be understood as a set of correlations that are formed in the rotation of capital. This balance can and should be predetermined by the board of finance and made every year. (Florea, 1999, p.367-368) It follows that economic-financial equilibrium rotation is seen in the context of capital, and can be highlighted by painting financing entity. Financial equilibrium can be understood in the synthesized form, to express the state of equality and correlations between the necessary financial resources and the possibility (sources) from their training, balance is permanently marked and influenced by the status and movement of property items. (Ana, 2001, p.298)

Financial steady tracked within the enterprise through two specific accounting processes, namely:

- Balance on the account which states can be analyzed long-term financial equilibrium in the short term;
- Profit and loss, profitability analysis, cash accumulation, respectively. (Ana,2001, p.299)

Business development is inextricably linked to ensuring financial balance, which is a part of economic equilibrium in terms of value. (Adochiței M., Adochiței A., 2001, p.209)

Financial equilibrium is therefore the correlation between the financial resources necessary to achieve the company's goals and the possibility of obtaining them, the main objective of economic and financial analysis based on the balance sheet as profitability is based on objective analysis of profit and loss.

Achieving financial balance of the company required to leave the two main rules of financial accounts, namely:

- assets (stable) are funded by stable resources (capital);
- current assets (cyclic) be financed by current liabilities (resources treasury).

Analyzing financial equilibrium terms, ie by comparing the medium and long term permanent capital assets in the short term by comparing current assets with current resources and overall balance by comparing the working capital requirement of working capital.

Each enterprise has to lay down annual financial statements such as:

- the balance sheet;
- the income statement;
- the statement of cash flows; and
- Accounting policies and explanatory notes.

The balance sheet is the statement on which the static analysis of the financial equilibrium is based, while the dynamic analysis is based on the income statement and the cash flow statement.

The annual financial statements have to provide a real image of the firm's financial position, performance, movements in shareholder's equity and in cash flows for the respective financial period.

The financial analysis has as objective to assess the financial performance state, the strong and weak points of the financial administration during the closed period. Its implementation involves a methodology for assessing the financial equilibrium and the capacity for creating new value, thus appreciating the firm's solidity and profitability.

2. Methods used in assessing equilibrium

The analysis undertaken here for diagnosing the firm's SC TURISM ARIESUL SA risk exposure deals with two aspects:

- A quick calculation of several ratios used in assessing equilibrium;
- Analysis of the financial equilibrium based on balance sheet.

The necessary data is collected from the firm's balance sheet. The construction of the balance sheet starts from the elements it comprises, that will previously be treated based on liquidity – eligibility criteria.

Table 1: The balance sheet of the firm SC TURISM ARIESUL SA

Description	2011	2012	2013
Intangible assets	23656	18269	134308
Plant, property and equipment	7422251	8020628	7371353
Investments, deferred receivables and other assets	27740	19271	19556
<i>Immobile assets</i>	7473647	8058168	7525217
Inventories	3495595	3187273	5853799
Accounts receivable	3164316	3553737	3494993
Other receivables	379284	787188	798927
Short – term investments			
Cash	192458	262386	127678
<i>Current assets</i>	7231653	7790584	10275397
<i>Total assets</i>	14705300	15848752	17800614
Stockholder's equity	7720759	8598412	8620010
Medium and long – term debt			
<i>Long – term capital</i>	7720759	8598412	8620010
Banks	1108306	1508572	1784425
Accounts payable	2826106	1463984	2428311
Other short-term debt	3050129	4277784	4967868
<i>Current liabilities</i>	6984541	7250340	9180604
Total liabilities and equity	14705300	15848752	17800614

The long-term financial equilibrium can be shown with the aid of the financial leverage ratio calculated either as the ratio between total debts and total assets, either as a ratio between total debts and Total assets:

a. Financial leverage (debt-to-equity ratio) = Debt / Total Asset * 100

$$\begin{aligned} \text{FL2011} &= 6984541 / 14705300 * 100 = 47.49\% \\ \text{FL2012} &= 7250340 / 15848752 * 100 = 45.74\% \\ \text{FL2013} &= 9180604 / 17800614 * 100 = 51.57\% \end{aligned}$$

Since “Total asset = Total liabilities + Shareholder’s equity”, it means that the financial leverage ratio shows the percent of the debt in the firm’s capital. In 2011, 47.49% of SC TURISM ARIESUL SA’s capital is formed by debt, by borrowed funds and only 52.51% has real coverage in the firm’s assets. In the case of liquidation of the firm, outside investors are protected unless loss exceeds 52.51% of the carrying value of total assets. In 2013, this ratio has its highest value, raising by 5.83% compared to 2012, aspect which is not particularly favorable for the firm, if we notice the computation of total liabilities, namely, the fact that the firm has engaged only short-term debt. This means that the enterprise must have a high liquidity or a strong short-term capacity to meet its debt obligation as they come due.

Another component of dynamic financial equilibrium refers to the growth ratios

b. Growth ratios are computed as average annual rates of growth over time periods selected by the analyst.

$$\text{Growth of Assets}_{2011-2012} = (15848752 - 14705300) / 14705300 * 100 = 7.77\%$$

$$\text{Growth of Assets}_{2012-2013} = (17800614 - 15848752) / 15848752 * 100 = 12.31\%$$

The bigger the growth ratio is, the more favorable the situation is for the enterprise, because growth in terms of assets means modernization and renewal of property, plant and equipment, as well as receivables and liquidities. In this case, the more significant growth in 2013 compared to 2012 have intangible assets and inventories, while we can notice a drop in cash.

The situation is registered on the background of a big increase in the volume of production sold, so the firm does not experience difficulties with the market (aspect seen later on, at the commercial margin).

To emphasize the growth of sales, we have:

$$\text{Growth of Sales}_{2011-2012} = (18307092 - 17243825) / 17243825 * 100 = 6.16\%$$

$$\text{Growth of Sales}_{2012-2013} = (23194633 - 18307092) / 18307092 * 100 = 26.69\%$$

Sales have grown each year, but it should be mentioned the fact that the percentage of 6.16% in the period 2011-2012 is due to sales of the firm’s own production, while sales of commodities fell by more than two thirds (from 2509850 RON in 2011 to 731500 RON in 2012). In the interval 2012 – 2013, both types of sales have a steady growth.

c. Results in analysis of the financial equilibrium based on balance sheet

The first equilibrium ratio is **the net statement (NS) or the accounting description**:

$$\begin{aligned} \text{NS2011} &= \text{Assets} - \text{Liabilities} = 14705300 - 6984541 = 7720759 \text{ s RON} \\ \text{NS2012} &= \text{Assets} - \text{Liabilities} = 15848752 - 7250340 = 8598412 \text{ s RON} \\ \text{NS2013} &= \text{Assets} - \text{Liabilities} = 17800614 - 9180604 = 8620010 \text{ RON} \end{aligned}$$

The net statement (the net asset) represents total assets minus total liabilities. It expresses the net wealth of the shareholders, the assets not engaged in liabilities.

In our case, the net asset is positive, with an increasing trend, which is the effect of a healthy economic administration.

A sound economic administration assumes a positive net asset, with an ascendant trend of the result, the reinvestment of net profits and other accumulations (provisions, subventions). A negative net statement reflects a pre-bankruptcy state, real assets outsized by the engaged liabilities, and is the result of the loss registered at the closure of the previous financial period, which consumes the shareholder’s equity, and the remaining part is left in the creditors’ care.

The second indicator of the financial equilibrium is **the working capital**.

As previously mentioned, assets are structured based on their liquidity level (the possibility for being changed into cash). In the balance sheet, the first listed elements are the less liquid ones (with the longest retrieval time): intangible assets (patent acts, licenses, brands, and studies), tangible assets (property, plant, machines, equipment, installations) and financial (participations, marketable securities). Due to the slow circuit of the capital invested in these assets, they are also referred to as stable assets.

The next items listed are current assets (inventories, receivables, cash), much more liquid than the previous, therefore, they are also referred to as cyclic assets (temporary). Lastly, the potential losses are also listed, which are assimilated to a reduction of the equity capital.

Liabilities are structured based on their characteristic of eligibility (coming to maturity after a given period of time). Firstly, we have the common stock, then reserves or reinvested previous accumulations,

and the latter being those from public sources (subventions, provisions). Usually, these sources do not come due (only in limit situations, such as bankruptcy), and therefore are also called permanent (stable) sources. In this category are also included the financial debts, meaning loans drawn on a longer period of time.

Short-term debt (banks, accounts payable, other payables) is the most eligible, and therefore are referred to as cyclic sources (temporary). Mostly, they are contracted for production necessities.

The stable assets are generally supported from the stable capital (equity and long-term debt).

The bigger the permanent sources are, compared to the permanent necessities for consumption, the better the situation is for the enterprise, because it disposes of a security margin that will protect it from unforeseen negative events.

This surplus of permanent sources can be used for the renewal of inventories and receivables. Actually, this potential use for the surplus, gave it the name of working capital. It is the expression of accomplishing a long-term equilibrium and of its contribution to accomplishing short-term financing's equilibrium.

Working capital = Permanent sources – Permanent assets

There are two possible situations:

Working capital > 0, when the permanent sources outsize permanent allocations

Working capital < 0, which represents absorption of temporary sources for financing permanent necessities, contrary the general financing principle: for permanent allocations, the use of permanent sources.

In the year 2011:

Working capital = Long-term capital – Immobile (Long-term) assets =
= 7720759-7473647 = 247112 RON or

Working capital = Current assets – Short-term debt =
= 7231653-6984541=247112 RON

In the year 2012:

Working capital = Long-term capital – Immobile (Long-term) assets =
= 8598412-8058168=540244 RON or

Working capital = Current assets – Short-term debt =
= 7790584-7250340= 540244 RON

In the year 2013:

Working capital = Long-term capital – Immobile (Long-term) assets =
= 8620010-7525217=1094793 RON or

Working capital = Current assets – Short-term debt =
= 10275397-9180604= 1094793 RON

First case: Working capital > 0. A positive working capital is considered a very favorable one, because it implies that a main rule in financing is being respected, namely: permanent needs are financed from permanent sources and long-term equilibrium is assured. And consequently, the enterprise also disposes of a security margin that can be used for the renewal of inventories and receivables.

The working capital is the result of an extremely prudent management policy. As noticed, the enterprise realizes each year a security margin.

The need for working capital reflects the short-term equilibrium.

The financing needs of production are covered mostly from corresponding temporary sources: operating liabilities (suppliers, creditors). The difference between the financing needs of the operating cycle and the operating debt is called the need for working capital.

The need for working capital= Cyclic allocations – Cyclic sources =
= (Inventories + Receivables) – Exploitation debts =
= (Current assets – Cash) – (Short-term debts – Short-term credits)

In the year 2011:

$$NWC = 3495595 + 3543600 - (6984541 - 1108306) = 1162960 \text{ RON}$$

In the year 2012:

$$NWC = 3187273 + 4340925 - (7250340 - 1508572) = 1786430 \text{ RON}$$

In the year 2013:

$$NWC = 5853799 + 4293919 - (9180604 - 1784425) = 2751539 \text{ RON}$$

Second Case: $NWC > 0$. It implies that there is a surplus of temporary needs, in comparison to the temporary sources possible to be mobilized. Such situation can be interpreted as positive if it is the result of an investment policy regarding the increase of the financing need of the exploitation cycle. Otherwise, NWC can underline an ill margin between inventories and receivables' liquidity and operating debts' maturity (deceleration of receivables and acceleration in payments).

Because NWC is positive in all the three years analyzed, it means that there is a need and not a resource. The situation is good if it is due to an increase in the commercial area (an increase of the volume of production). The trend is ascendant, due to the bigger growth of inventories and receivables than the increase of payables.

If $NWC < 0$, there is a surplus of temporary resources over the temporary needs. This is favorable if it is the result of an increase in the current assets' turnover and the implication of debts with remote maturities. In contrary case, it can be the consequence of an interruption supply and inventory renewal.

Net treasury is the expression of very-short term or immediate equilibrium, and is calculated as:

$$NT = WC - NWC, \text{ where } WC = \text{working capital}$$

Or

$$\begin{aligned} NT &= \text{treasury resources} - \text{treasury allocations} = \\ &= \text{Cash} - \text{Current bank credits} \end{aligned}$$

If the working capital at a certain point is superior to the need of working capital, then the financing surplus is found in the form of a net treasury, namely cash in bank accounts and in the safe deposit.

The net treasury is the most decisive expression of an efficient activity. The existence of a net treasury during several years shows the success of the enterprise on the market and the possibility of a profitable investment of its liquidities for the purpose of reinforcing its market position.

A positive net treasury is the result of the overall financial equilibrium of the enterprise. The financial exercise concluded with a cash surplus, which is seen in the net profit. This surplus is to be placed efficiently and safely on the monetary market and/or financial.

A negative net treasury signifies financial imbalance at the end of the year. This deficit is compensated through engaging new credits.

In the year 2011:

$$\begin{aligned} NT &= 247112 - 1162960 = -915848 \text{ RON} \\ &= 192458 - 1108306 \text{ RON} \end{aligned}$$

In the year 2012:

$$\begin{aligned} NT &= 540244 - 1786430 = -1246186 \text{ RON or} \\ &= 262386 - 1508572 = -1246186 \text{ RON} \end{aligned}$$

In the year 2013:

$$\begin{aligned} NT &= 1094793 - 2751539 = -1656746 \text{ RON or} \\ &= 127678 - 1784425 = -1656746 \text{ RON} \end{aligned}$$

On very short term, this firm doesn't stand too well. $WC < NWC$, and, consequently, it will be forced to contract new credits to cover its needs (this appreciation derives from the negative net treasury, which suggests that the firms' liquidities are outsized by the treasury credits it uses).

In the conditions of constancy in the NWC, the firm's cash flow would be equal to net profits and accumulated amortizations and it would express the monetary availability for the firm's development and prosperity. A positive cash flow is seen as an increase of the real financing capacity of investments. This

also means a growth of the real assets, a maximization of the shareholders' wealth. A negative cash flow suggests a decrease of the real financing capacity of investments, a decrease of the real net asset, a reduction in the property's value.

At this point of the financial analysis, it can be said that treasury is determined by economic profitability.

It is easy to prove that between profitability and liquidity (as shown by NT), there is an interaction. The exceeding profits obtained through the increase of profitability will be destined to modernizations and as an incentive for all factors of production: nature, labor and capital. The factors of production, thus stimulated, will produce an increase in the firm's capital turnover, and the higher level of liquidity is a factor for an increase in profitability.

Thus, a profitable firm doesn't automatically have a positive net treasury.

3. Conclusions

Based the data above we can say that we can measure the equilibrium of a company taking into account these two measures:

- on the one hand, the financial ratios, and the evolution of some economic indicators;
- on the other hand, we can measure exactly the financial equilibrium on the, with some indicators such working capital, the need of working capital and of course the net treasury of entity.

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RATING AND BUSINESS SCENARIOS

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Abstract: *Events that may affect future earnings and investment performance are so numerous and varied that their identification is a challenge even for the most astute and experienced investors, because the future is largely unknown. Many business decisions are taken here is based on estimates of the future. Before deciding to invest in a company is required to assess the entity's ability to pay its obligations on time. In this regard rating company helps investors to determine how risky it is to invest in a company or a country. Given these issues, the authors designed a model based ratings of previous research. Also, from a given rating scenario method was applied for reclassification company in a higher rating level.*

Keywords: rating, liquidity, solvency scenarios

JEL Classification: G17, G32

1. Literature review

Ratingul este un proces de evaluare extrem de complex și laborios, presupunând analiza riscurilor cu care se confruntă întreprinderile, precum și a influențelor existente în mediul macroeconomic. În esență, analiza de rating se bazează pe o serie de indicatori cantitativi și calitativi utilizați în analiza financiară în care se are în vedere soliditatea financiară a companiei.

The transition to market economy has emerged as an objective necessity of knowledge as accurate information on the risk of bankruptcy at some future time. Concern for predicting bankruptcy risk materialized, worldwide, since the 60s of last century, the development of a method called the method of scoring, which has seen significant development with the use of statistical elements of financial statement analysis, based on a series of installments. Numerous analyzes have sought to highlight differences in the values of certain performance indicators to businesses and companies went bankrupt. Studies have shown that some of the financial indicators were significant differences in the two groups of companies.

Scoring method is to provide predictive models for assessing risk of failure of an enterprise. Credit-scoring can be expressed as a notation of appraisal or assessment of the applicant to grant credit attributes, which aims to establish a model for prioritizing applicants for credit in a note or a score (Basno, Dardac, Floricel, 2003, p.221).

- For this purpose are required:
 - establish a number of variables (wealth, income level, stability of work and residence, age, familiar tasks, behavior and relationships with banks as debtors etc.);
 - issuing a system allowing the implementation of the variables in a joint, overall expression. (Basno, Dardac, Floricel, 2003, p.221)

In this connection it is emphasized deficiencies arising from the transposition. (Bedin, 1988) The rankings can be as precise as the notation for each variable, as it can become confusing note resulting from aggregation, whereas aggregation as a way of generalization, it means loss of information, giving the concrete sides disclosed by them. (Basno, Dardac, Floricel, 2003, p.222)

Aggregation brings the same denominator, but leads to loss of identity of subject characteristics. Compensation phenomenon, which is produced by aggregation, overshadow the essential sides being covered by the appreciation of other features, insignificant purpose: minimal risk. (Basno, Dardac, Floricel, 2003, p.222) The effectiveness depends on consideration of the most significant factors that can be variable and optimizing the aggregation system.

2. Method and results

Scoring method is based on a series of indicators determined statistically weighted by some coefficients which form a mathematical model by which we can determine, with a certain probability, the future health of an enterprise.

Thus, a company is assigned to "Z" score determined by a linear combination of a number of ratios:

$$Z = a_1R_1 + a_2R_2 + a_3R_3 + \dots + a_nR_n, \quad (1)$$

where:

$a_{i=1,n}$ – represent coefficients;

$R_{i=1,n}$ – represent financial ratios.

Depending on the value score "Z" state enterprise is appreciated: solvent, respectively bankrupt. The main models used for predicting bankruptcy discriminant analysis presented in economic literature are developed by Altman score function, probabilistic model of Deakin, Model Spring, Koh model, model, credit-men 'or security-analysis "model CONAN and HOLDER, French trade credit model (CCF) score function performed by Ion Anghel (model, a ") etc.

2.1. The rating model

In order to classification of companies into one of five categories based on the creditworthiness of the performance indicators chosen in the model we have considered the following self assessment grid:

Table 1: Financial performance criteria, considered in the rating model

Indicators	Ratings				
	Rating A Standard	Rating B Observation	Rating C Substandard	Rating D Doubtful	Rating E Loss
<i>Points</i>	<i>10</i>	<i>8</i>	<i>5</i>	<i>2</i>	<i>0</i>
Current liquidity	> 150	(121-150)	(101-120)	(80-100)	< 80
Solvency	> 50	(40,1-50)	(30,1-40)	(20,1-30)	< 20
Indebtedness	(0-30)	(30,1-50)	(50,1-65)	(65,1-80)	> 80
Return on equity	> 15,1	(10,1-15)	(5,1-10)	(1,1-5)	< 0
Operating margin	> 15	(11-15)	(7-11)	(5-7)	< 5
Total points	41-50	26-40	11-25	1-10	0

Source: Own results

To fit credit rating in one of the categories is achieved vertical summation of the scores obtained by calculating each indicator.

Significance rating is:

Category A rating from the highest level, having excellent repayment capacity, with no irregularities in payment of debts to creditors. It is impossible to record losses for different lenders risk exposure is minimal.

Category B: a rating and a very good repayment capacity. It is unlikely occurrence of irregularities in payments to creditors but if they occur, are minor and can be resolved quickly. No records foreseeable losses and related risk exposure is low.

Category C: a relatively good rating, but can cause problems related financial flows, repayment capacity is usually adequate, but may occur irregularities in payment of debts to creditors, which can be solved without rescheduling, and no rescheduling. Is unlikely to record losses. Risk exposures is considered average but acceptable to creditors, through monitoring of commitments.

Category D: firms have cash flow problems which have resulted in the emergence of irregularities in payment of debts to creditors, sometimes solved by rescheduling or rescheduling payments showing increased vulnerability to market shocks. Firms have capacity for repayment as long as there is no disruption in their economic environment. It is possible to record losses related risk exposure is considered high.

Category E: serious problems of cash flow. The likelihood of irregularities in payment of debt is very high. Repayment capacity is very fragile. Losses are imminent in most cases. Reimbursement is considered maximum risk and net exposures can be reduced only by providing top-class collateral.

Indicators used in its models to calculate the following models:

➤ **Current liquidity**

$$L_g = \frac{ACR}{DCR} * 100 \text{ where:} \quad (2)$$

L_g – Current liquidity;

ACR – current assents;

DCR – current liabilities.

➤ **Solvency**

$$S_p = \frac{C_{pr}}{AT} * 100, \text{ where:} \quad (3)$$

S_p – solvency;

C_{pr} – own equity;

AT – total assets.

➤ **Indebtedness**

$$, \text{ where:} \quad (4)$$

G_i – Indebtedness;

DT – total debts;

AT – total assets.

➤ **Return on equity**

$$ROE = \frac{RNE}{C_{pr}} * 100, \text{ where:} \quad (5)$$

ROE – Return On Equity;

RNE – Net profit;

C_{pr} – Equity.

➤ **Operating margin**

$$M_{expl.} = \frac{P_{net}}{CA}, \text{ where:} \quad (6)$$

$M_{expl.}$ – operating margin.

P_{net} – net profit;

CA – turnover.

Applying its own model for SC Roman Baths SA.

Applying this model to the SC Roman Baths SA. following results:

Table 2: SC Roman Barths SA indicators of model fit it

Indicators	2009	2010	2011	2012	2013
Current assets	6.366.587.046	4.786.203.581	5.120.974.959	4.470.535.802	5.478.415.290
Current debts	2.350.354.915	2.743.586.330	3.574.372.740	3.646.970.820	4.903.773.886
Current Liquidity	270,88	174,45	143,27	122,58	111,72
Total points	10	10	8	8	5
Equity	12.324.704.630	13.184.118.605	13.568.598.447	14.056.147.239	16.195.075.527
Total assets	19.459.491.798	21.161.033.559	24.927.446.177	26.713.538.384	32.102.076.163
Solvency	63,34	62,30	54,43	52,62	50,45
Total points	10	10	10	10	10
Total liabilities	2.279.370.767	2.609.007.437	4.950.122.772	6.383.652.890	8.371.549.948
Total assets	19.459.491.798	21.161.033.559	24.927.446.177	26.713.538.384	32.102.076.163
Indebtedness	11,71	12,33	19,86	23,90	26,08

<i>Total points</i>	10	10	10	10	10
Net profit	2.285.490.203	1.778.042.301	1.022.387.463	1.368.127.631	1.799.154.602
Equity	12.324.704.630	13.184.118.605	13.568.598.447	14.056.147.239	16.195.075.527
Return On equity	18,54	13,49	7,53	9,73	11,11
<i>Total points</i>	10	8	5	5	8
Operating profit	2.777.388.289	1.964.598.430	1.309.233.231	1.197.278.464	3.201.693.547
Turnover	13.078.308.815	12.284.378.408	16.750.726.457	12.842.384.017	13.953.092.655
Operating margin	21,24	15,99	7,82	9,32	22,95
<i>Total points</i>	10	10	5	5	10
General points	50	48	38	38	43
Rating	Standard	Standard	Standard	Observation	Standard

Source: (Own calculus based on SC ROMAN BARTHS SA annual reports)

Analyzing each individual indicator, we can draw the following observations:

➤ **Current liquidity** - in the first two years of the period, the value of this indicator is well above 150%, receiving a maximum score of 10 points, the period 2011-2012 this indicator is in the range (121%, 150%) receiving 8 points, and in 2013 the indicator takes the value of 111.725, therefore be granted 5 points rating. Decreased liquidity is due on the one hand, the decrease in current assets due to a decrease in current assets and prepayments, and on the other growth stocks, however along with an increase in current liabilities.

➤ **Solvency** – throughout the analyzed value of this indicator is above 50%, which attracts a maximum score award 10 points for each year. However, this trend is decreasing from year to year due to higher growth of total liabilities compared to the equity.

➤ **Indebtednes** – is below 30% in all five years of the period, such SC Roman Baths SA receives a maximum score of 10 points for this indicator. During the period, there is an increase of this indicator, due to a higher growth of debt due to contract new loans compared to total assets.

➤ **Return On Equity** – value of this indicator is above 15.1% in the first year of the period analyzed - 2009, the company received a score of 10 points. In 2010 and 2013 the value of this indicator ranges (10.1%, 15%), which is why SC Roman Baths SA be given eight rating points related to this indicator. This reduction is due to decrease net income, due to a slight increase in equity. During 2011-2012, the rate of financial return has values below 10%: 7,53% (in 2011) and 9.73% (in 2012) due to a drastic reduction of net earnings, while maintaining an approximately same level of equity.

➤ **Operating Margin** – recorded values of over 15% in 2009, 2010 and 2013, SC Roman Baths receive 10 points for this indicator. The rest of the analysis period 2011 and 2012, the value of this indicator is considerably reduced hovering in the range (7%, 11%), which is why the company is given just five ratings points. In 2011 there is a decrease in operating profit along with an increase in turnover, which leads to a decrease in operating margins over the previous year from 15.99% to 7.82%. The following year, operating margin is increasing due to decrease lower operating profit compared to the turnover, but it is within the same range (7%, 11%). In conclusion, we note that, according to its rating model, SC Roman baths to fall into the category rating for three years in the period of analysis: 2009, 2010 and 2013 with a maximum score of 50 points recorded in 2009. As a consequence of the economic crisis since 2011 and continuing in 2012, the company's financial condition deteriorates slightly, but without major difficulties, for which it is in category B rating with a score of 38 points. The change is due to a reduction in the rate of general liquidity and deteriorating financial profitability and operating margin.

2.2. Implementation of scenarios for next to improve rating company

Because during the period, except for 2012, the company falls under the category rating A: Standard proposed scenario will focus this year. Through scenario analysis aims to improve the rating entity from category B to category A. Since the lowest values are recorded for financial profitability and operating margin, we will focus on improving their value:

1) **Return On Equity** – recorded value of 9.73% in 2012. In order to improve the value of this indicator should follow:

- net result for the year increased by 80%, which is achieved by increasing sales by 10% and hence the net turnover;
- with increased net earnings for the year will be an increase in equity, but much lower, with only 8%.

Following these changes, the financial rate of return increases to 16.42% to about 70% compared to the value recorded in 2012, the company received in this case a maximum score of 10 points.

2) **Operating Margin** – is 9.32% in 2012. However, due to proposed changes in the script, place the following changes in the indicators:

- operating profit increased 2-fold as a result of increased sales by 10%;
- increase turnover by 9%.

The increase in turnover is lower than operating profit, there is an improvement in the operating margin, which amounted to 16.63%, and 78% higher than in 2012. At this level, the company presents huge credibility to creditors, receiving 10 points.

By achieving these objectives, the rating SC Roman Baths SA, according to their rating model will look like this:

Table 3: The proposed scenario of rating indicators SC Roman Baths SA

Indicators	Basic scenario	Proposed scenario
Current assets	4470535802	5044364519
Current debts	3646970820	3646970820
Current Liquidity	122.58	138.32
Total points	8	8
Equity	14056147239	15181301586
Total assets	26713538384	27287367101
Solvency	52.62	55.63
Total points	10	10
Total liabilities	6383652890	6383652890
Total assets	26713538384	27287367101
Indebtedness	23.90	23.39
Total points	10	10
Net profit	1368127631	2493281978
Equity	14056147239	15181301586
Return On Equity	9.73	16.42
Total points	5	10
Operating profit	1197278464	2322432811
Turnover	12842384017	13967538364
Operating margin	9.32	16.63
Total points	5	10
General points	38	48
rating	Observation	Standard

Source: Own calculus based on SC ROMAN BARTHS SA annual reports

According to the scenario proposed above, own model, while by increasing sales and thus the outcome of the exercise, the increase in current assets and bank debt relief company could get a very good rating and can be included such rating category A.

3. Conclusions

In a world where the great global financial crisis many unknowns as to raise the role of the rating is one major negligible, because its results depend on a lot of decision-making processes undertaken by different categories of users such as: providing a bank loan, ensure credibility suppliers and other counterparties, attracting investors.

The Company has analyzed issues regarding cost and operating margin. The company should focus on increasing turnover and hence the profit achieved by increasing sales:

- a prime objective has to be to increase turnover. This is achievable given the much higher levels of this indicator in previous years.

- another objective is that, while the increase in turnover and sales company record and an increase in current assets, particularly cash in hand and in banks.

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US FUNDING IMPLICATIONS AT INTERNATIONAL LEVEL AND IT'S CURRENT BANKING SYSTEM CONFIGURATION ACTUALITY

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***Abstract.** Leader of the global economic top for more than a century, US represented a power of a leading example for the developed countries, due to its economic particularities. Although, nowadays, the US economy feels the effects of the cyclical downturn from the end of 2008, its significant private sector, which ensures the existence of a mixed economy, stimulated by a huge internal market, founds its support in a strong and diversified banking system.*

Which transformations took place, in time, in the US banking system, in which way those changes had an effect on its economic system, are questions of which answer we propose to define in the current paper.

Key words: economy, credit, financing, banking system, trends

JEL classification: G21

1. Introduction

Developed in a closed environment until 1914, the American economy has abundantly used this advantageous aspect, in a wide market, based on some inexhaustible raw material resources. In time, the US dynamics of economy faced constant increases, without having into consideration the decrease of the crisis periods that took place both at national and international level, with which US interrelate.

Eager to be in front, US trained its managerial and economic performance inclusive during the Second World War, after which it resulted winner, through a complexity of the strategic conjuncture of providing food, weapons, equipments and machinery to the countries found in war, and by crediting the economies of the countries who were in need because of the war, by financing the so-known "Marshall Plan". Therefore, the US financing through the credit given at international level become an instrument of exercising the influence all over the world, especially over the countries found in the economic development stage.

2. Particularities of the US economy; fundamentals of the crediting policy

US is a nation projected at the crossroads of civilizations, formed exclusively by immigrants, aspect that offers to the country the advantage of a high entrepreneurial spirit, in relation with the native nations. The investment, from more than a century, with the noble mission of spreading the democracy and liberty all over the world, highlights it well-deserved dominant position on the cultural plan, making possible the transfer of its cultural influence across its borders, by "exposing" its model of life and of its moral values acquired in time.

Due to the practice of an immigration policy, the US economy is a competitive one, of competitive type; the absorption of the highest values of international intellectuality and its contribution, at the same time, to the economic globalization through transnational branches, ensured to US the support of the most complex economic structures.

Appreciated as a super-power from the economic, technological, military, informational and agricultural perspective, the American force is justified by its amazing capacity to mobilize its significant resources, the US economy structure being characterized by the change of the report between the material activity field and the non-material activity field. Thereby, the analysts noted that the significant trend registered in economy in the post-war period was of an increase in the role of services, concomitant with a

decrease in the role of the mining and quarrying industry and of the primary sector, in which case US preferred the imports, at small prices.

And those were possible only with a significant capital that US has, oriented, especially, to a constant development of the credit market.

In contradistinction with the Japanese banking system, which was strongly controlled (Savu, 2005), about the US banking system we know that wears the fingerprint of the same typically liberal particularities, organized near small banks, being decentralized for a long period of time, the principles of universal bank applying before the banking reforms regulated after the crisis from the '30s. So, in 1933 it is regulated the legislative framework, "Glass-Steagall Act", which involved the separation of the banking activity from the functional and geographic points of view, simultaneous with a delimitation of the activity of the commercial banks (or of deposit) from the activity of the business banks (or of investments).

To mention is that the irregularities and the failures registered by the banking activity, in the context of the inexistence of a specific legislation regarding banks framing, lead to the promulgation of the National Bank Law in 1863, law that allowed the banks systematization into two categories:

- National banks, governed through a monetary controller, by the Federal Treasury
- State banks, supervised by Government through the State Banking Departments, and, from 1913 makes its presence known in the banking system a *Central Bank* also, its function being exercised, until that moment, by the Treasury. We subscribe to analysts appreciation that this delay in the apparition of a central bank has its answer in the fear inherited by the Americans in the front of a financial force concentration.

Returning to that period of financial crisis, so significant for the banking system, resulting in the bankruptcy of some banking entities, it is imposed that, in December 1913, the Law of Federal Reserves to adopt the founding of the Federal Reserve System (FED), in which structure were co-opted 12 Federal Reserve Banks. Those 12 banks had the privilege to issue and were subordinated to the Council of Federal Reserves.

The fragility in coordinating the Council of Federal Reserves was felt in registering, by the commercial banks, of important portfolios of securities, exposing them to the vulnerable situations of leak of liquidities. So, FED couldn't dominate the American banking system, and the incapacity of the Federal Reserves to satisfy the reserves needs lead US to cross the most difficult financial crisis in 1929, crisis accompanied with the strongest bankruptcies in the history of the banking system.

So, it was imposed that in 1935 the Council of Federal Reserves to be deposed by the Board of Governors, and this thing was possible through the Banking Law promulgated in the same year. The liberty of the new Council reaches high rates, between the functions exercised by the council being: the management of the monetary policy, of the discount rate, the modification of the reserves necessary, the management of the operations realized on the so-called free market or "open market", together with the representatives of the Federal Committee of the Free Market.

Characterized by an extremely high number of credit institutions and specialized organisms, the American banking system met a significant fragmentation, following the specialization imposed to banks. In this sense, it is remarkable the comparison made on the bases of the evidences from 1995, registered within the American banking entities, that reached a number of approximately 24.000 unities, compared with the significantly small number of entities registered in an European country (France, for example, with 600 entities).

Summarizing the above presented chronology of events, it can be mentioned that between the main characteristics of the banking system, two of them can be distinguished: a high decentralization and the specialization of the investments and commercial banks. We understand that those two specific stages of the American banking system wear the mark of the country's federal structure, and also of its normative framework. So, if the decentralized banking system is the effect of the federal structure, the specialization of the banking activity occurs through adopting a national legislation, starting from the years of crisis, in 1929 (Spulbar, 2003).

Subsequently, on the background of neglecting the operations exercised by the banks themselves, as a result of giving attention especially to the banking institutions, new financial and banking entities were created, the so called "near-banks", with a high impact in terms of competition, because they were not subject of the banking regulations. Whether we refer to facilitate some payment instrument in shop-networks, whether we invoke the facilities of having some credit cards, or the apparition of the common placement funds, those entities managed to place their products and services all over the US. Besides, distributing the financial gains on the American market intensified the competition since the adoption of

the Law in 1980 (respectively the “Monetary Control Act”). Not exactly surprising in this sense would be the opinion of some analysts of the monetary and banking policy, who appreciate an inconsistency of the banking system reported to the political supremacy of US, or with the supremacy of the dollar and the power of its industry. It can be justified, concerning this aspect, the vulnerability of the banking activity, expressed through bankruptcies or mergers of the small and medium banks, which took place in time.

In which concerns the configuration of crediting in US, the dynamics of financing the consumption, respectively of locative financing, they were influenced by the trends of the markets accessed by the real beneficiaries, in different moments of time, and under the impact of the economical and social factors, but not only them. To exemplify the trends in this sense, we can invoke a relevant change of proportions, if we refer at the evolution of credits reported in 2002, year when the mortgages reached approximately 62%, the difference of almost 38% being allocated to the consumption credits, compared with the level registered in 1990, when the report were in the favor of the consumption credits, the locative credit reaching approximately only 35% of the total credits accorded on the American market.

In order to justify those trends, we invoke the influence of the non-banking financial institutions, which, being responsible of the movement of funds without having its own national network in this scope, applies the solution of selling to other investors parts of the mortgage securities, through form of securitization of the loans, within a market called the market of transferable mortgages. But, the particularity of the American market is represented exactly by this secondary market of the mortgages coordinated by state, supporting and facilitating the access to the liquidities that belong to financial institutions which search for funds. Practically, the governmental agencies subordinated to the federal authorities absorb the flux of liquidities over the ability of suppliers found in unavailability of sufficient funds, absorption that imply a guarantee of credit payment and of interest payment, on the account of the securities, guaranteed, in their turn, through mortgages belonging to the Federal Agency of Housing Construction.

So, we understand that a “vitiating” of appreciating the real level of liquidities, of their absorption, can lead to a strong imbalance in the American banking system.

The way in which the imbalance manifested at the banking system level attracted repercussions in the economic, social and political plan, with a low or high impact on international level, it is proposed to constitute the main subject analyzed in the next part of the present work, as follows:

3. Trends and characteristics of crediting in US, under the impact of the global crisis and its implications at international level

According with the opinion of some economists, the globalization made some important changes to take place within the hierarchy of the big banks, with international activity (Daianu, 2001).

Losing the control over the real appreciation of the level and need of liquidity, that lead to the existence of an abundant liquidity on the American banking market, but also at the level of world’s central banks, represent the essential cause of the global crisis manifested since 2007, cause at which were added others, such as the over-saturation with savings of some countries that met an ascending integration in the global economy. As a result of those two significant causes, there were generate resources for investments, including for sophisticated financial instruments, or derivatives, and the consequences of those investment acts impacted the banking system, attracting speculations in acquiring assets with consistent gains, neglecting the inherent risk, concretized in the manifestation of the global crisis (Vlada, 2014).

For US, it is appreciated that the acute phase of the actual financial crisis took place at the level of the banking system in the month of September 2008, when a financial aid was rejected by the Federal Reserve Bank to one of the most 5 significant American investments banks, Lehman Brothers, because of its high level of “toxic” assets. In those conditions, the bank was in need to start the procedures for bankruptcy. At the same time, in the same month, two of the institutions of mortgages, supported by the US government, respectively the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation try to be saved from bankruptcy.

Those unexpected events, that attracted imminent collateral victims in the American market, were reflected, implicitly, over the citizens, for who the dimensions of the current economic crisis is compared with the crises from the 1929-1933, although there are economist of who opinions estimate more severe consequences, that will be felt in economical and financial plans but not only, during the next periods of time.

And, in order to draw an approached image about the significance of the impact generated by the persistence of the global crisis over the American banking system and over the economy, in its assembly, we present the chronology of some important events, with resonance in the international plan.

In this sense, we mention a *deficiency in the American banking prudence*, noticed in the disfavor of the European banking system in august 2009, according to which US couldn't respect the negotiated international agreements, referring to crediting the companies, in order to ensure a better understanding of the banking risks (Merkel, 2009).

But, it is appreciated that exactly the relaxing, by US, of companies' financing lead, in less than a year, to *the premises of the possibility to create new workplaces*, following an increased level of consumer protection, including in which concerns the loans, those being sustained by consolidating a financial system that will ensure the economic recovery, whether a reduction of taxes supported by companies is invoked, or diminishing the unemployment rate through construction projects is followed (White House Report, 2010).

Afterwards, the data publicly reported by the American central bank prove an ascendant trend of crediting the consumption in US, registered in January 2010 (with 4.96 billion dollars), being the first increase after the most significant registered in the middle of 2008, before the manifestations of the economic crisis. Besides, beyond the negative estimations of analysts, both consumers and banks made the needed efforts in order to encourage the crediting, if we take into consideration the control of the current expenditures of customers, but also the prudence of the banks by selecting its clients and increasing the fees for the credit cards (www.wall-street.ro).

In the same year of 2010, the US president, Barack Obama, maintains his interest in which concerns *consumer protection* and *reforming the specific financial system* from the '30s, by outlining a law aiming to discourage the "abusive" credits and the mortgage credits especially, law that was expected to be signed before the 4th of July 2010. At the same time, it was willed that each financial product destined to consumer to be the subject of an attentive *supervision*, protecting them, and the companies in danger of collapse to be taken under control through *new regulations* lead to ensure the reduction of its dimensions and sell of its assets. In which concerns the minimization of the risks manifested in the financial system, the implementation of a series of regulations afferent to derivatives instruments was followed, in order to commercialize them only in conditions of *transparency of the public performances* (www.romania-actualitati.ro).

The measure in which could be concretized all those projections is difficult to count, having into view the unpredictable situations occurred in time, under the impact of the economical-social-political influence factors.

But, we can invoke the success of consumption crediting since march 2012, in the segment of auto and education financing, achieving its highest level registered in the last ten years, respectively 2.500 billion dollars (in increase with 21.4 billion dollars) (FED, 2012), influenced both by the ascending trend in the interest level in the second part of 2012, but also by the availability of the households to consume under debt, as an effect of the increase in consumers level of trust. The relevance of this trend of financing consumption is directly reflected in the US economy, if we take into consideration that, compared to this, it brings its contribution in a percent of approximately 70%.

At the same time, in the last quarter of 2012, the American banking system consolidates its meaning, becoming a "catalyst" in the sense of economic increase in US, which appears that surpassed its financial problems, especially if we take into consideration the significant cover of the debts registered in the years before the global crisis. Those performances are the result of a wide area of policies and measures that lead to the diminishing of households' debts, through disciplining the payments and by reducing the fraud by the card holders, consolidating the economic growth.

Relating to the success registered in 2012 in crediting, in 2013 important banks from the American banking system rivals with a competition impossible to beat in the segment of students' crediting, having into consideration that in the third quarter of 2013 the biggest bank in the system – JP Morgan – announced its intention to withdraw from this market, being unable to align to the cheaper costs practiced by the American government on the loans given, especially as some important banks, as Bank of America or CitiGroup withdrawn from the market, Wells Fargo being the only one from the big banks that can finance this segment.

If the European education system has the capacity of granting the university studies at a high level, the American government program support the teenagers who are going to a faculty since 2010, by facilitating their financing, having into view approximately 60% of the total of more than 20 mil. teenagers

estimated to subscribe at a US faculty per year are found in incapacity to finance their expenditures for university studies.

However, if we take into consideration that the limit of credits given to students by the American government is of 31.000 dollars to finance the entire period of studies, it can be appreciated that the insufficiency of this sum conduct the teenagers to contract loans from other banks too.

Therefore, this market, of credits for students, estimated at more than 1.000 billion dollars, can have an increased contribution in the level of the performances of the banks capable of a superior management that would ensure their resistance in front of the minimal costs practiced by the financing of the American government.

Beyond those trends, analysts appreciate that a revival of the economy would be sustained by the ascendant trend of consumptions, especially in the domestic segment, which target the entire population, those involving an increase in the banking activity.

So, in US, the official data publicly reported with regard at the consumption indicator are encouraging, especially if we take into account the numbers registered at the end of November 2013. We understand that this increase in consumption sustained the crediting, being based also in the support of the financial leverage, and the results contributed to identify those solutions that would take out US from crisis and that would maintain the economy strong, and this thanks to an increase in consumption, not in austerity.

Practically, the American solution consider essential the credit accessing by investors and entrepreneurs, who ensure a stabilization of economy and its recovery, exactly through the contribution of those once again empowered entities through the loans that they access on the banking market. Those solutions are tried on the American territory, favored by the support of the Central Bank (respectively FED), which can intervene in a certain measure, needed to guide the economy, as the prerogatives allow to. Not the same solution can be applied at European level, in a Europe devoid of a strong mechanism, the role and intervention of the European Central Bank (respectively ECB) being inferior to those of FED.

Concluding, US reconfirm its position of a high power, and this even more as its solution of exiting the crisis, dignified of all courage, focused on providing with credits the economy, in a disfavored period of time, when no other economy in EU can afford this action. And this solution will serve as a worthy example to follow by Europe, once with passing those austerities as unwilling by consumers and risky for ECB's policies.

4. Conclusions

Being convinced by the meaning and impact of US economy, and also of the American banking activity and on international level, we support some conclusions drawn in the present paper:

- Result of the constructive representative examples for the big world economies, the intervention of each country's government must be aligned with a strong responsibility in the economical and financial policies, simultaneously with the supported efforts of consumers, so the economy can benefit of the essential support pillows in order to stop the alteration of the whole system;

- Whether we refer at the national governance, overall, whether at the banking governance, we consider essential to respect the principles of prudence and efficiency, those being adequate to national regulations or to the business model and the according risk profile;

- Only a healthy interdependency between the economy's coordinates and those of the banking system can prove the theory of a nations' efficient financing, a nation conscious of the importance of a good management of the limited capital.

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5. Applied Informatics in Economy

DEVELOPMENT AND IMPLEMENTATION OF INTANGIBLE PROPERTY AT THE MACRO LEVEL

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Abstract: *In the article such concepts as intangible property of the state, intangible national wealth, intangible heritage are related to each other. Certain types of intangible property are considered: marketing and innovation intangible property. Licenses and patents are considered as a right to act, specialized by the state. By its nature the patent - is a payment for the time to be a monopolist. Intangible property of the state -is a set of relations on the intangible objects that represent some value to society. In this article the dynamics of innovation activity in Russia and the world.*

Key words: intangible property, national wealth, intangible heritage, commercialization, specification.

JEL classification: O34

1. Intangible property in information economy

In today's information society, the role of information, knowledge, reputation and other intangible assets is rising. Economies of developed countries are characterized as knowledge economy, information or innovative economy. According to the World Bank and the United Nations Development Program data for today in the global structure of the national wealth natural resources and accumulated wealth make up only 20 and 16%, respectively, leaving the leading role to the human capital - 64%. Human capital, in its turn, can be regarded as an object of intangible property. In our opinion, intangible property - is the relation between the subject and the public about the property, that has no tangible manifestation or its value is negligible, but the object of property has potential value or opportunity to bring or provide a competitive advantage to the owner.

2. Intangible property, national wealth and intangible heritage

The research of the intangibles in the global and Russian science can be divided into three areas: intangible property at the nano level, i.e. the study of property relations concerning intangible objects at the individual level (intellectual and human capital, knowledge, skills); intangible property at the micro level – the study of objects of the intangibles and relations concerning them at the company level; intangible property at the macro level – the study of property relations at the state level. When considering the intangible property at the macro level accuracy in understanding the wording of intangible property of the state, intangible national wealth and intangible heritage of the state should be made. There are many approaches to the definition of national wealth, it is often understood as a set of assets accumulated by society. I. Pososhkov and A. Smith first declare that the national wealth can be divided to tangible and intangible (Stolyarov, 1993, p.83). Knowledge, cultural level and so on are understood under intangible national wealth (Fakhrutdinova, Safina, Kolesnikova&Mikhailov, 2013). As a rule, for determination of the the intangible national wealth a very important question is the possibility of assessing intangible component, as well as the temporal boundaries of its existence. Intangible benefits, created by past generations and valuable in today's society, are generally understood as intangible heritage. The objects of the intangible heritage are knowledge, traditions, customs and intangible culture objects etc. It is divided into cultural and natural heritage, tangible and intangible. In our opinion, intangible national wealth -is a collection of objects of intangible property needed to be evaluated. Intangible heritage – is a list of objects of intangible property created in the past and / or has value by virtue of its long existence. Intangible

property of the state –is a set of relations on the intangible objects that represent some value to society (knowledge, skills, culture, traditions and customs). We believe that a fundamental difference of intangible property of the state from intangible national wealth and intangible heritage is:

- no material manifestation (intangible property is a relationship about intangible objects) and the need to generate income or provide;
- lack of an accurate assessment criteria, in accordance with RAL or IFRS;
- lack of time frames of object property creation.

3. Realization of intangible property

While considering ownership at the macro level, special attention is paid to the management of intangible property and the establishment of the institutional environment for its implementation. Let's consider the indicators that characterize the development and implementation of intangible property in Russia in greater detail. The concept of implementation of intangible property is closely related to its commercialization, i.e. partial alienation of the rights to the property to generate some income. For the right to broadcast the film you need to pay, so the right holder disposes some part of his rights on this film for a profit. Some part of the rights in relation to objects of intangible property are exceptional and are specified by the state, so, for the right to practice certain activities you will have to pay to the state, this idea underlies in such object of intangible property as a license. On the one hand, the license is an intangible asset of the company, on the other hand - it is the right given by the state for practicing certain activities. Patent is also a right specified by the state that alienates it in favor of the inventor, giving him a chance for exclusive use of an invention, utility model or industrial design. By its nature, the patent - is a payment for the time to be a monopolist. In Russia, the list of licensed activities is set by federal law, namely, the Federal Law of May 4, 2011 № 99-FZ "On licensing certain types of activities"(№99-Federal Law, 2012). A rate of involving intangible property in in economic turnover of companies is lower than in Europe. Thus, the average volume of patents growth around the world, according to a report by WIPO, is more than 9%, and Russia in 2013, the increase was only 8.2% (The Report of WIPO Director General Assembly, 2013). Intangible property at the macro level may appear as intangible potential that allows operating more efficiently (knowledge, information, reputation, etc.) or as the product of labor, expressed in intangible product, i.e. service. The volume of services in GDP of Russia is about 60%, when in most developed countries it ranges from 70-80% (Proskura, 2012). By volume of patents granted in 2012, Russia is ranked 7th in the world. (Center for Humanitarian Technologies, 2012)

Table 1: Rating of the countries by the number of patents per year, on 1 January 2012

Rank	Country	Applications (overall)	Applications (residents)	Applications (non-residents)
1	China	526 412	415 829	110 583
2	USA	503 582	247 750	255 832
3	Japan	342 610	287 580	55 030
4	South Korea	178 924	138 034	40 890
5	Germany	59 444	46 986	12 458
6	India	42 291	8 841	33 450
7	Russia	41 414	26 495	14 919
8	Canada	35 111	4 754	30 357
9	Australia	25 526	2 383	23 143
10	Brasil	22 686	2 705	19 981

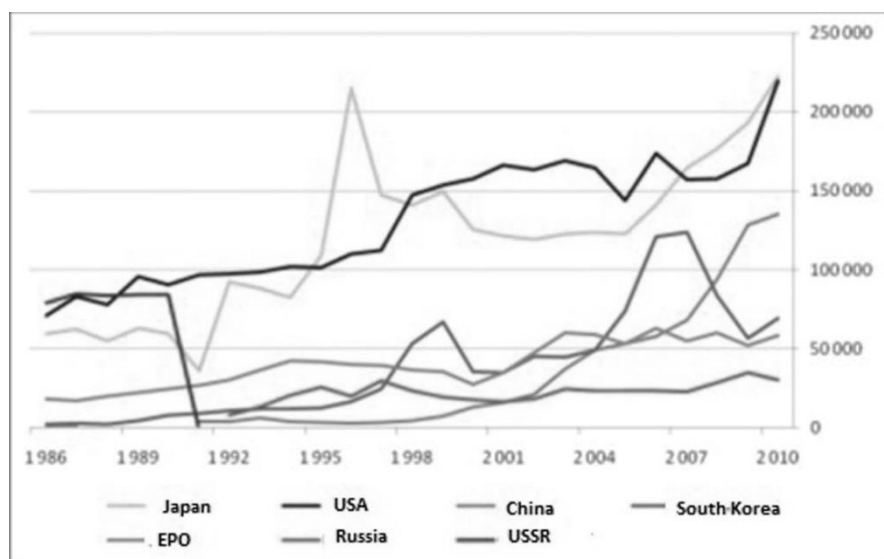
Source: (Center for Humanitarian Technologies, 2012)

Patent activity is an important indicator of innovation activity, commercialization of intangible property, the development of scientific potential of the country. Russia ranks seventh in the number of patents, but the lag in the number of patents from the first place more than 12 times. Big share of patents were granted to non-residents of the country - 36% of the total patents (see Table 1). Thus, despite the rather high rank, commercialization of intangible property is far behind from the world indices.

According to the Rospatent, in 2012 Central Federal District (14,352 applications) and Volga Federal District (4614 applications) are the leaders in the number of patents. Leading area is an IT. (Rospatent, 2012).

Examining dynamics of the granting patents for invention, we can state that innovation activity in Russia and the commercialization of the results of intellectual activity after decrease at the beginning of 1990 has not regained its leading position in the world.

Figure1: Dynamics of the number of patents granted for inventions by patent organizations in leading countries in the period from 1986 to 2008



Source: (Arkhipova & Karpov, 2012)

In its essence, patent is the title of protection proving authorship of an invention, without receiving it it's impossible to take into account the value of the invention on the balance sheet, i.e. involve it in the economy.

Table 2: Existing security documents for industrial property rights in Russia on 01.12.2013

Inventions	192497
Utility models	54217
Industrial designs	23762
Appellations of origin	134
Trademarks filed under the national procedure	312272
Trademarks filed on the international procedure	160826

Source: (Rospatent, 2012)

Through a review of the structure of security documents on industrial property, it is evident that a greater number of documents is made by trademarks, i.e. objects of intangible property with a marketing nature. Brand concept in the legal sense in Russia is absent, more often the concept trademark is used. Brand, in its turn, is the synthesis of the trademark and the company's reputation. However, according to the company Interbrand, annually represents the ranking of the most expensive brands and there are no Russian ones. In this rating, in 2013, such brands as Apple (98,3 million dollars), Google (93,2 million dollars) or Coca-Cola (79,2 million dollars) are included. (Interbrand Group, 2013). Therefore, we can conclude that, despite the relatively high activity of the trademark registration, their value and, thus, recognition in the world is not so great, so, development of the trade (marketing) intangible property in Russia remains at a low level. Obtaining protection (licenses, patents) and registration of intangible property in the structure of assets is the indicator of intangible property commercialization.

We believe that in addition to the marketing intangible property, the innovative intangible property objects can also be highlighted and these objects carry a certain novelty that allows you to expand revenue from the use of these objects. Indicator of inventive activity in the regions allows analyzing in what areas of the country innovative activities are actively engaged and where innovations are more commercialized.

In terms of inventive activity in 2012 in Russia, Central (5.17), Northwestern (2.74) and the Volga Federal District (2.53) indicators are higher than the average (Rospatent, 2012).

The share of intangible assets in Russia as of 1 July 2013 is not more than 0.29% of the overall assets of domestic large and medium-sized enterprises (assets of large and medium-sized enterprises accounted for in the July 1, 2013 are 122718 billion rub. and intangible assets - 360 billion rub) (Fakhrudinova, Kolesnikova, Kiselkina, Khalikov, 2013). In the structure of investments the share of intangibles represents less than 0.5%. According to experts of the Russian Academy of Sciences, in Russia only 10% of research is subjected to patenting and only 2-3% of them are commercialized, which leads to an enormous underestimation of the intangible component of Russian business. In developed countries has been a steady increase in the proportion of intangible assets and in forecast for 2015 the ratio of intangible assets to the material will be 95:5 (Milner, 2010, p.27). For example, according to Interbrand study of value of one only brand MTS in 2008, it was estimated by 6916.91 million rubles and on the balance of intangible assets – only 378.37 million rubles. Based on the figures, we can see that in the part of intangible assets a highly undervalued trademark of MTS is not considered or taken into account. At the same time, intangible assets amounted to 0.13% of total assets (Annual Report of JSC "MTS", 2008). In 2012, intangible assets decreased and amounted to 306.6 million rubles, balance sheet - 391,288.1 million rubles, share of intangible assets in the balance sheet structure was 0.07% (Annual Report of JSC "MTS", 2008), which indicates a lack of commercialization of intangible property. A similar trend has been maintained at a macro level, according to experts of the Russian Marketing Association, intangible property (including objects of intellectual and human capital) is not more than 15% of Russia's national wealth, i.e. (no more than 23 792 million rubles.), while in the structure of world national wealth intangible property is about 64% (Milner, 2010, p.34). Russian Marketing Association (RAM) conducted a survey of more than 300 foreign companies from different sectors of the market that have been successfully operating in Russia. Fulfilled by researchers of RAM calculations concerning the quantitative impact of marketing strategy on the level of capitalization, showed that the marketing strategy that satisfies the requirements of investors, may increase the market value of Russian companies by 11% in engineering, by 22% in trade and woodworking, by 19% in the food industry, 16% in the textile industry and the average value of a marketing reserve of capitalization amounted, according to the Center for Research of RAM, is 18% (Bravermann, 2002).

From the data it can be concluded that the volume of marketing intangibles in Russia is big enough, but the level of commercialization remains low compared with European countries.

One of the indicators, showing the development of intangible property at the macro level, is the number of personnel, which is involved in scientific research.

The number of personnel engaged in research and development in Russia amounted to 1,061,044 people in 1995, 736,540 people - at the beginning of 2011, a decline of - 31%. Especially should concern the fact that the number of researchers has decreased by 29% (from 518,690 to 368,915 people)(Krutin, 2013, p.73.).

Many factors of the institutional environment affect the formation of intangible assets at the national level: political, economic, ideological, etc. Low commercialization of intangible property is not associated with insufficiency of intangible objects in Russia as such, but with the lack of incentives for the specification and their involvement in economic activities. For example, in Russia is high human and intellectual capital.

Rather high level of development of human and intellectual capital data is shown in table 3.

Table 3: Dependence of economic development of some countries on the level of qualifications of their workforce in 2011¹⁶

N	Country	Population, million	GDP, billion \$	Share of the global qualification labor resource, %	Level of workforce qualification, %
1	USA	275	9500	22	8
2	Japan	125	2500	9	7,2
3	Russia	145	450	16	11
4	China	1300	1500	10	0,8

Source: Levchenko, 2011.

4. Conclusions

According to table 3, it can be concluded that the level of commercialization of intangible property remains low in Russia, although the intellectual and human potential remains high. Processes of

¹⁶ Quoted by: L.V. Levchenko. Intellectual potential of Russia in the context of economic security // Economic Sciences. - 2011. - № 78. S.390-395.

specifications of intangible property are less active than in the rest of world in average. Table 3 shows that despite the high human potential, the level of its use is low (Russia's GDP is 5 times lower than Japan's GDP, with a high share of skilled labor). Russia has a sufficiently rich potential in the form of intangible property uncommercialised: human capital, research potential, reputation, etc.

However, intangible property and intangible capital of the country cannot be understood as the sum of the intangible capital of business entities, as it includes items such as the reputation and history of the country, the national idea and others. In the interaction of objects of intangible property at the macro level certain synergies are created that allows obtaining a greater effect than the sum of the effects of economic entities from intangible property.

Commercialization and specification of intangible property is a prerequisite for the effective functioning and maintenance of global competitiveness in the information society.

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