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MARKETING

EVALUATING BUYING BEHAVIOURS ON THE CONSUMPTION GOODS MARKET IN EUROPE AND ROMANIA

Marius BĂLĂŞESCU¹

Abstract: *The tendencies in the buying and consumption behaviour in Europe has recorded a series of modifications over the last years, the most important of the recent ones being caused by the international economic context. Europeans head more and more towards large commercial chains, to the disadvantage of traditional commerce. The same situation is visible in Romania as well. The present paper focuses on consumption behaviour and tendencies in the Europeans' and Romanians' shopping basket.*

Key words: *consumption, buying behaviour, retail, market.*

1. The Analysis of the Europeans' Buying Behaviour

A study made by GFK as a synthesis of the main tendencies of the consumption goods market, reveals that:

- Buyers become more and more “modern”, more demanding and more complex in structure; they are pretentious, susceptible to influence, pragmatic, loyal, conservatory, economical;
- Buyers become more satisfied with the conditions offered by retailers, but...not more loyal to a shopping place.

If by 2005, promotions had been the most important for Romanians, as well as for Hungarians, the people of Benelux, UK and northern countries and most Occidental countries considered the ease of finding goods highly important. For the Spanish and the Portuguese, the most important attribute of a shop was the price/quality ratio, which was also valid

for the Russians. Poland and Baltic countries were focusing in 2005 on the access to shops while the Swiss considered fresh goods highly important.

1.1. The Analysis of the Buying Behaviour in Bulgaria

The buying behaviour of Bulgarians is characterized by frequent visits to the shops, and about 1-2 times per week to the supermarkets. This is due to the fact that there are very few hypermarkets in the areas surrounding urban agglomerations. The shopping average in supermarkets is 5 times bigger than in hypermarkets. Loyalty is defined as a quota of strictly necessary goods bought in hypermarkets/supermarkets divided by the total number of buyers. The brands of the large retailers are more and more famous in Europe. This is a global trend that is not yet manifest in south-eastern countries.

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1.2. The Analysis of the Buying Behaviour in France

France has a huge commercial network comprising traditional and modern stores, even though traditional commerce is in

decline. Ever since 1970, the market share of super and hypermarkets has doubled. More than 60% of the French consumers started shopping in this type of stores as shown in the following table:

The market share of the main commercial forms in France Table 1.

Type of store	1970	1980	1997
Hypermarkets (>2 500sqm)	30.6	14.3	33
Supermarkets(400 – 2500sqm)	9	16.8	28.3
Other large forms	20.7	13.7	1.5
Small and specialized shops	66.7	55.2	37.2

Source: www.insse.fr/fr/theme/tableau.asp?reg_id=0&ref_id=NATTEF12305

In 1998, according to INSSE, 36% of the French consumers were shopping from 2 stores, 29% from 3 stores and 15% were not shopping from supermarkets at all.

The national consumption of food differs significantly. Northern countries consume more potatoes and fats, southern ones consume cereals and oils. 80 litres of mineral water per inhabitant are consumed in France, while in Ireland 24 litres. 144 litres of beer are consumed in Germany per inhabitant, while in Italy 23 litres are consumed.

2. The Evolution of the Buying Behaviour in Romania

In the last few years, Romanian buyers have evolved from being naïve (1996), to being available (2000), loyal (2003) up to being exigent and demanding (2006), being loyal to categories and level of quality (premium, average, accessible). Definitely the following years will bring an even greater devotion to brands, both as regards the goods domain and services.

In the last years, Romanians have started to shop more often in large stores.

Therefore, the share of supermarkets increased from 2% up to 16% to the disadvantage of most local markets and stands that registered the greatest decrease from 19% down to 5% between 1998 and 2005. At the same time, booths maintained their market share at about 43%.

An important increase in the preferences of consumers was registered by specialized food shops, which reached a market share of 8% in 2008 from 2% in 2006. The most dramatic reduction was registered by mini-markets, which reached 6% in 2008 from 12% in 2005. Traditional neighbouring shops still remain on the first place as share, due to the fact that 33% of the consumers shop here.

Therefore, in order to be sure that it is close to buyers, a retailer must know its buyers' behaviour.

For 2010, the GfK prognosis shows a massive increase, up to 50%, of the share of large shopping chains, as regards the Romanians' preferences.

In a report of Eurostat – the European Statistics Office, made in 2008, it was shown that food prices on the Bulgarian

market represent almost 79% of food prices in Romania, which lead to a growth of the migrations in Bulgaria with a commercial aim, after the opening of the borders in 2007.

From all member states, Bulgaria registers the lowest price level as compared to the EU, about 56%. Dropping the ecological border tax, going abroad only having an identity card, and the quality of goods are some of the reasons why Romanians shop in Russe, the 4th largest city in Bulgaria.

A different aspect that reveals Romanians' consumption habits is that, before going to Bulgaria, Romanians check the prices of Metro, Billa or Kaufland, hypermarkets that have online offers and promotions. On shelves, imported products prices are lower with 10% than products on the Romanian market, and the cheapest are own products: vegetable cans, pickles, cheese and milk.

3. Features in the Buying Behaviour of Romanians

The report of the quantitative research made by ISRA Center on "Modern retail

vs. traditional retail" in November 2008 on a representative sample of 1094 subjects living in urban agglomerations, at the request of "Piata" Magazine, had as main objective the revelation of the features of the Romanians' buying behaviour in large stores (modern retail) and in small shops (traditional retail). Most of the urban population (82%) shops for household, but only 71% of the men do the shopping, while 91% of the women are significantly active in shopping for household use. In Romania, almost all buyers shop from both small (mini-market, kiosk, booth, food store, general store) and large (hypermarket, cash & carry, supermarket) stores; therefore, both modern and traditional forms of trade play an important part in the Romanians' buying habits. Concerning the shopping frequency, small stores are more often frequented (an average of 6 times per week compared to only one time per week in the case of large stores), as the result of the proximity of the small stores. The clients of the small stores are mostly elderly people, between 50 and 60 years of age, who go past the shop on a daily basis.

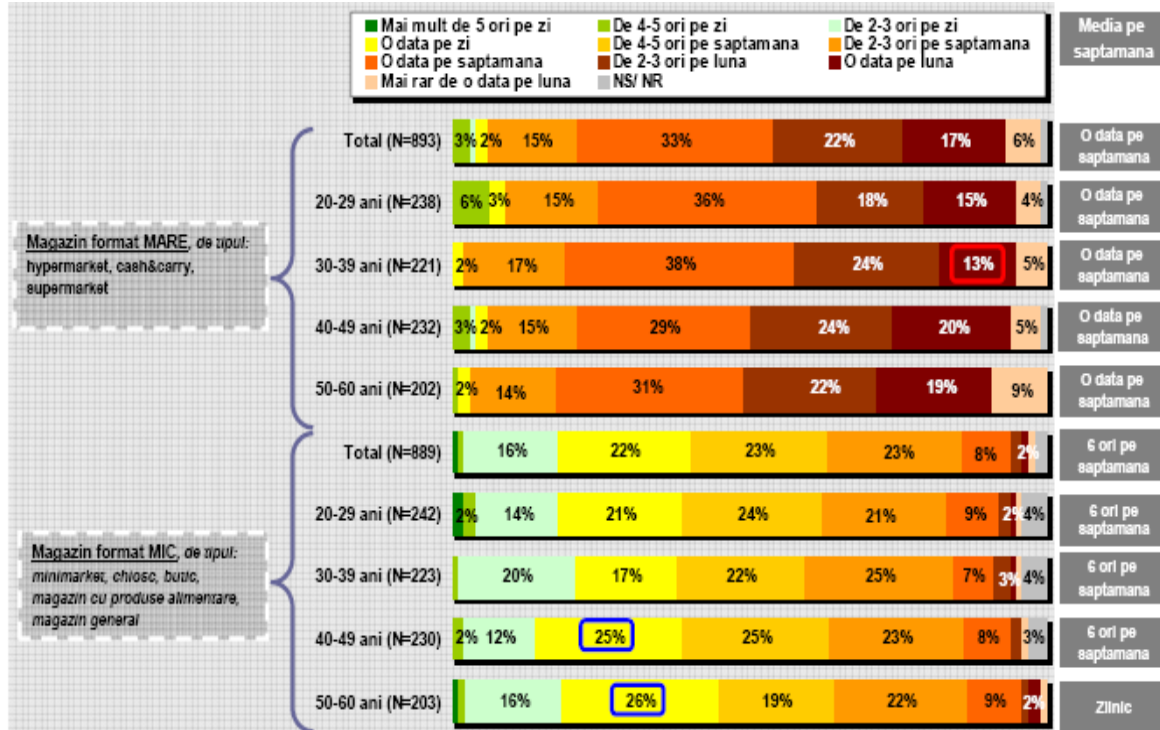


Fig.1. Buying behaviour

It is noticeable that most Romanians prefer shopping from both large and small stores, only a small part prefer shopping from a single location, either a large store or a small one. The Romanian consumer is a very exigent one, seriously considering the correctitude of shopping locations, the way prices are placed, as they must be very visible on the shelf and at the front desk.

Modern consumers have high expectations regarding store assistance, especially when it comes to modern trade. Dissatisfaction refers mostly to the personnel in large shopping chains, to their impoliteness, indifference, or non-professional behaviour.

Shop evaluation: How important are the following attributes Table 2

Prices are clear for each product	4,72*
Quality / price ratio	4,71
Shelves are organized and good-looking	4,69
Amiable and helpful personnel	4,63
Easy and fast shopping	4,58
Short queues at the front desk	4,48
Interesting and advantageous promotions	4,33
Qualified personnel	4,31
Post-sales service	3,49
Private label	2,86

*The figures represent the average score on a scale from 1 to 5, where one means "not at all important" and 5 means "very important"

Source: MEDNET Marketing Research Centre

4. The Influence of the Economic Crisis on the Romanians' Buying Behaviour

In these crisis years, in the context of uncertainty, communication will mostly focus on rational functional messages, in order to give consumers a more tangible reason to choose a given product. The most believable message or benefit that consumers receive is the one referring to the intrinsic qualities of the product, as the product is the most tangible element of the marketing mix. In 2009, consumers will be mostly attracted by price, as most retailers say. Retailers that will not be able to differentiate themselves from others by means of price will focus on the quality and diversity of the range of goods and services.

Price (shopping savings) will be the decisive element in 2009. Promotions arouse the interest of the consumers who are searching for the most advantageous offers. The other elements are not to be forgotten, because they lead to the consumers' comfort and satisfaction. What matters most in these years of economic crisis is value, meaning the ratio quality / price, then the availability of products (finding the products in shelves) and service offer – e.g. overtime program, store aspect, atmosphere, personnel affability, and so on.

It has been predicted that in 2009 a differentiation of stores will start. Therefore, price is the 4th element in the top 6 elements of differentiation that will attract buyers in a shopping location: 1. Good quality services; 2. Unique products; 3. Frequency and quality of promotions; 4. Price; 5. Range diversity; 6. Overtime program. All these aspects must be taken into consideration by retailers because in 2009 the shopping frequency will increase, but the value of the shopping basket will drop. A more balanced buying behavior will be visible: clients will pay more

attention to the products they buy and their prices. Food expenses may grow. Consumers will choose value and not luxury, they will pay more attention to the quality/price ratio, will have a more mature buying decision, and less an exuberant or impulsive one.

5. Conclusions

The analysis of the buying behaviour reveals 5 types of main shopping:

- Routine shopping - which corresponds to a household supply for a period of 3 up to 7 days.
- Stock shopping – for goods supply for a longer period of time and frequent use.
- Complementary shopping – for maintenance goods, for which service is compulsory.
- Same day consumption goods – like meat, fish, and food in general.
- Adventurous shopping – which the buyer discovers while spending his spare time.

Consumers are to be found, alternatively, in each of the types of shopping mentioned above, but their expectations in the store differ significantly. Therefore, the importance of the price, of the range of goods (quantity, quality), comfort, service, atmosphere, varies by the type of shopping. A well defined form of shopping: to buy bread, the consumer goes to the nearest shop, and so he does for flowers, sugar, vegetables, fruit, while for meat, milk, and other goods he goes to the hypermarket, as well as for cleansers, cosmetics, where the range of products is wider.

The main point on which any retailer must focus is consumer confidence, as the Americans call it. The confidence of the consumer comes when entering the door of any shop and knows that he can buy at that moment or the following day anything he needs and wants, and does not have to wait for this. Nevertheless, 70% of the decisions

are made in front of the shelf; therefore merchandising is more useful for attracting customers and stimulating them to buy. In order to be efficient in sales, the way goods are presented on shelves must be rethought, starting from the basic principles, and adapted to the present given context.

The relevance of the message taking into account the place where it is received: in front of the shelf, the way the goods are delivered, the ability to direct potential clients to the shelf, the buying experience per se, they all become necessary elements which will assure the success or the failure of sales. They must be approached in an integrated manner, based on studies and strategically made. This concept can be defined as retail communication planning. Shelf communication starts from the moment the buyer leaves his house and ends when he recycles or throws away the empty package, giving birth to a new cycle.

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MARKETING RESEARCH ON THE RETAIL MARKET IN BRAŞOV WITH A VIEW TO OBTAINING SOLUTIONS TO DIMINISH THE NEGATIVE EFFECTS OF THE ECONOMIC CRISIS

Simona Bălăşescu ¹

Abstract: *Under the present circumstances of the economic crisis, studying the retail market is a must. The tendencies emphasize a diminution of consumption. Retailers face a long series of problems in the present context. These problems refer to the reduction of turnover, as the number of clients reduces as well. The research in the domain shows what instruments retailers use in order to diminish the negative effects of the crisis. The present work presents some of the results of the qualitative research, as well as of the quantitative one.*

Key words: *retail, research, crisis, solutions.*

1. Introduction

The underlying hypothesis of the research was that the managers of retail companies use, in most cases, adequate marketing instruments. Using these instruments, as well as using marketing, can lead to a diminution of the negative effects of the economic crisis our country is going through. The quantitative research was carried out after a qualitative research, a focus-group amongst retail companies' managers. The research was conducted in order to obtain a better observation and understanding of the phenomena on the retail market. The focus-group led to the formulation of a set of hypotheses that represented the basis of the quantitative research. One of the main hypotheses is that marketing is highly important for all companies. The use of marketing leads to an improvement in the activity on the

market. The importance given to marketing instruments, strategies and plans emphasizes the fact that the marketing activity has become a primary condition for the success of any company in our country.

The present work only underlines some of the important aspects of the research, the ones that allow us to have a clear opinion on the retail activity in Brasov.

2. The Population and Its Size

The population analyzed comprises all active retail firms in Brasov. From the selected companies the interviews involved only General Managers, Executive Managers or Marketing Managers, in the case of companies that have marketing departments. The structure of the population is as follows:

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Structure of active companies registered in Brasov Table1.

Class	Lei	No.	Retail form	No.
Small	0 – 250.000 lei	2648 (75.77%)	Food	1239 (46.7%)
			Non-food	1409 (53.3%)
Average	250.001 – 800.000 lei	500 (14.3%)	Food	248 (49.6%)
			Non-food	252 (50.4%)
Large	More than 800.000 lei	347 (9.93%)	Food	178 (51.3%)
			Non-food	169 (48.7%)
Total		3495		3495

Source: Camera de Comerţ şi Industrie Braşov, 2008.

3. The Qualitative Research of the Local Retail Market

From the total number of companies in Braşov, only 16 persons, all in top management positions, took part in the focus-group. Two interviews took place, each of them on a sample of 8 persons. Some of the main conclusions of the qualitative research are presented in the following lines:

A profile of the consumer was drawn. Nowadays, the consumer is: snob, pretentious, undecided and susceptible to influence. Therefore, we may state that clients want high quality goods with low prices and very short delivery terms.

The marketing activity is mainly accomplished by a marketing department, and only in the case of 25% of the companies marketing is the responsibility of the General Manager, which cannot lead to a proper development of the company. In the case of 25% of companies interviewed, decisions are based on intuition, as there is no proper marketing strategy or plan.

As regards marketing instruments in the case of small companies, we may state that primary data and data bases are obtained with their own means, while larger companies use all marketing instruments: data bases, primary data, secondary data, marketing research, and so on. The most efficient instruments are data bases (in the

case of small companies – 37.5% of the subjects) and marketing research (in the case of large companies – 63.5%).

The subjects rely very much on the exactness of the information obtained by means of marketing instruments. This helps them on the local market because it sets the bases of their market vision and mission.

In drawing up the market strategy, data bases are used only by small companies, while larger companies use mostly marketing research, as well as all other marketing instruments.

After using marketing instruments, two problems are visible: information may not be representative and it may also be irrelevant. Subjects stated that data bases are sometimes incomplete, or contain old or wrong information, which makes data irrelevant.

All subjects agreed that those who own information are not willing to share, and the lack of communication (plus low budgets in the case of small companies) is an obstacle against development.

Most of the subjects intend to change their marketing strategy given the present circumstances. Small companies are willing to appeal to marketing research and larger companies are going to further use all marketing instruments.

Starting from the hypothesis that subjects possess a complete data base, they would

like to find more information regarding the partners' history, the consumers' exact needs, their satisfaction as feedback, and other such information.

4. The Quantitative Research of the Local Retail Market

The quantitative marketing research was conducted on a representative sample of 384 subjects, with an error of $\pm 5\%$. The exactness of the sample was assured by

giving all individuals equal chances to take part in the research. This leads to a minimization of the subjective elements in the selection process, by using the principle of random draw.

4.1. Choosing the Sampling Method

Proportionally random multistage sampling was used in order to create the sample, taking under consideration 2 aspects: the size of the companies and the retail form.

Structure of the sample by turnover and retail form

Table2.

Class	Lei	No.	Retail form	No.
Small	0 – 250.000 lei	291 (75.8%)	Food	133 (45.7%)
			Non-food	158 (54.3%)
Average	250.001 – 800.000 lei	54 (14.1%)	Food	27 (50%)
			Non-food	27 (50%)
Large	More than 800.000 lei	39 (10.2%)	Food	20 (51.3%)
			Non-food	19 (48.7%)
Total		384		384

Source: Camera de Comerț și Industrie Brașov, 2008.

4.2. Presenting relevant questions in the research

Do you own a clients data base at the moment?

Frequency of owning a clients data base

Table 3

Do you own a clients data base, at the moment?

		Frequency	Percent
Valid	no	95	24,7
	yes	289	75,3
	Total	384	100,0

From all analyzed companies 24.7% do not own a clients data base, while the rest of 75.3% do. This means that retail companies in Brasov are interested in knowing information about their clients, most retailers owning data bases of their own clients. The preoccupation towards

owning clients data bases emphasizes the importance given to having devoted clients. Considering the present situation of the economic crisis, the development of the market is slowed down, and having devoted clients is an essential condition for surviving on the market.

To what extent are your suppliers willing to give you useful marketing information?

Intensity of the information exchange between suppliers and retailers

Table4.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	very little	121	31.5	31.5	31.5
	2	95	24.7	24.7	56.3
	3	37	9.6	9.6	65.9
	4	70	18.2	18.2	84.1
	very interested	61	15.9	15.9	100.0
	Total	384	100.0	100.0	
Total		384	100.0		

A lack of communication is noticeable between suppliers and retailers, according to retailers. A very significant percentage of the subjects, more precisely 31.5%, claim that their suppliers are not so interested in sharing useful marketing information, while only 15.95% of the subjects claim that their suppliers are very

interested in this. The lack of efficient communication between business partners, in our case suppliers-retailers, is not beneficial for either of them when it comes to the activity on the market, but it only sets barriers in the way of developing and improving partnership relations.

The intensity of the crisis effects on the activity of retailers on Brasov market Table 5.

Please evaluate the influence of the economic crisis on your market activity:

		Frequency	Percent
Valid	very much	155	40,4
	much	113	29,4
	little	67	17,4
	very little	35	9,1
	does not affect the activity of the company	14	3,6
	Total	384	100,0

0.4% of the subjects consider that the present financial-economic crisis can affect the activity of their companies very much; 29.4 % of the subjects consider that the crisis will affect their activity significantly, while 17.4% of the subjects state that the

crisis will have a little influence on their companies and 9.1% go for *very little* influence, and only 3.6% state that the crisis will not affect the activity of their companies.

How much can marketing help in getting through the present economic crisis?*The importance of marketing in getting through the economic crisis*

Table 6.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid very little	19	4.9	4.9	4.9
2	28	7.3	7.3	12.2
3	43	11.2	11.2	23.4
4	109	28.4	28.4	51.8
very much	185	48.2	48.2	100.0
Total	384	100.0	100.0	
Total	384	100.0		

4.9% of the subjects consider that marketing can help very little in getting through the present economic crisis, while 39.3% of the subjects claim that it can help very much. It is visible that most of the subjects consider marketing very useful in diminishing the negative effects of the economic crisis. This aspect will lead to a development of the marketing activity at the level of retail companies in Brasov, in the near future.

5. Conclusions

Starting from the present information, obtained after a close marketing research on the retail market in Brasov, we may state that all retailers expected negative effects as regards the economic crisis.

The present situation on the retail market in Brasov is to become more and more difficult for most companies in the domain. The struggle to be informed regarding the events on the market as well as to have devoted clients certifies that retailers fight not for supremacy, but for survival. Marketing instruments, such as data bases, marketing strategies, and so on, used by

retailers confirm the hypothesis referring to the importance given to marketing in developing the activity of any company. Most retail companies managers in Brasov claim that an efficient marketing activity can diminish and even eliminate the negative effects of the economic crisis. The insufficient communication and cooperation as to the information exchange between business partners, such as suppliers and retailers, is a real threat to the development of the retailers' activity in Brasov.

The impossibility of an extensive expansion as a result of the financial blockage and the deceleration of the demand impose an intensive development of retailers. Therefore, the fight is not only for finding new clients, but also for keeping the devotion of the actual clients. In the circumstances of economic crisis, the retailers who know how to better use the marketing instruments and the limited resources that they possess will gain the confidence of clients as well as market share. Nowadays, the focus is on services that lead to winning clients' devotion.

The results of the present study can be used as a source of information for all retailers in Brasov and not only, regarding the phenomena on the local retail market. Educating retailers in the direction of using marketing instruments and marketing per se can lead to a diminution of the crisis' effects.

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EUROPEAN POLICIES FOR THE STIMULATION OF DEVELOPMENT OF SMEs

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Abstract: *Europe's small and medium-sized enterprises are the engine of the European economy and the main drivers for achieving sustainable growth and more and better jobs. At EU level, the European Commission has developed a comprehensive SME policy, which aims to ensure that Community policies and actions are small-business friendly and contribute to making Europe a more attractive place for setting up a company and doing business.*

Key words: *Think small first", Structural Funds of the EU, European commercial protections tools, Euro Info Centres.*

1. Introduction

The Small and Medium Sized Entreprises represent the engine of European economy and are also the most important driver of new jobs and economic growth. The European Commission through its actions, sets the needs of the small enterprises in the center of its policies. The European Commission develops and applies a variety of political measures especially conceived to support the SMEs in Europe. These policies have in view to create those conditions on which the SMEs can be created and be prosperous. But the SMEs will have the main role, if the EU follows its objectives of acceleration of the economic growth and creation of more and better jobs.

The new strategy of the Commission in the field of the SMEs aims to apply the principle „think small first” that allows the improvement of the business environment for the SMEs, the reduction of administrative costs, the simplifying and accelerating of the compulsory procedures,

the improvement of the access of the SMEs to the markets and the growth of their competitiveness. The member states have taken responsibility, through the European Chart for Small Enterprises, to develop a favourable business environment for the SMEs. One of the main objectives of the Community action is to allow its member states to benefit of the experience of their omologation and make use of its policities. This way everyone may become aware of the good practices and can apply them in his case.

The Commission has innitiated a proces of reduction of the bureaucracy the firms are confronted with and revises the existing community legislation, aiming to eliminate the unuseful administrative requirements. The member states are also asked to follow the example of the Commission. According to the estimates, this exercise may reduce the administrative costs by 25%, costs that are presently paid by the SMEs.

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2. Policies in the Field of the SMEs - Contents

The SMEs are responsible for a great proportion of the economic and vocational activity in Europe. This governmental policies must be adopted that should contribute to the stimulation of the development of the SMEs.

2.1. Presentation of the Main Financing Opportunities Granted to the SMEs

The Capital is essential for the start of development of a company, but to find out the most adequate financing form is very often a major obstacle for the small and middle sized enterprises. The investors and the banks often avoid paying the initial costs of foundation of the SMEs due to the implied risks. Sometimes the entrepreneurs do not entirely understand the concerns of the investors or the banks, fact that makes it difficult to find the necessary financial support. Presently, the European Commission is implementing a number of programs especially granted tot the environment of financial improvement of the SMEs in Europe.

The European Union offers support to the small and middle size enterprises in Europe.

This may be found under different forms, like subventions, loans and in some cases – guarantees. The support my be offered directly, in the forms of the programs managed under national or regional level - as the Structural Funds of the European Union. Also, the SMEs may benefit of a variety of non-financial consultancy measures offered as programs and services of support for enterprises.

This tool aims to present the main community programs existing for the SMEs and contains a short description as well as the main sites of each program.

The European Commission collaborates with national authorities at the improvement of the financial environment for SMEs. Through the organization of

experience interchanges and good practices between the national governments, the Commission has allowed many member states to bring concrete improvements to the financial environment for the SMEs. Also the Commission has taken floor in the dialogue between bankers and SMEs in order to identify and reduce the main obstacles that the small enterprises may come across when looking for a financing form.

2.2. An Adequate Legal Framework for the Stimulation of the Development of the SMEs

Presently the European Union undertakes huge efforts to reduce bureaucracy inside the existing legislation as well as in the legislative propositions. Initially, the Commission has rejected 68 projects of laws in 2006 and other ten projects in 2007. For the beginning the Commission works at diminishing of the number of laws regarding the simplifying of the SMEs' activities. These include the reduction of the reporting imposed by the accounting regulations, the reduction of costs for the trans-border taxes and the simplification of the customs procedures. We have to ensure the fact that the new laws do not make the activity of the SMEs more difficult but have in view their needs.

This is a part of the principle "think small first", introduced by the Commission in 2005, once with the presentation of the new policy regarding the SME's. All the legislative propositions have as object of a thorough verification regarding their potential impact on the SMEs.

2.3. Guarantee of the Loyal Competitiveness

A unique competitive and open market is the best guarantee offered to the SMEs that follow to increase the effectiveness and their innovation potential. Thus the EU has introduced a powerful policy in the field of competitiveness which should protect the SMEs against the non-loyal competitions

of other economic entities. Without neglecting its engagement for a free competitiveness in Europe, the Commission updates its regulations in order to encourage the national and regional authorities to further redirect the public subventions. The Commission will continue to reduce the controversial actions and those which modify competitiveness in favour of the national champions and in change to sustain those measures that contribute evidently to the intensification of growth and job creation.

Because the European SME's have the biggest growth potential and new job creation, the small firms will be the first ones to benefit from these measures.

A particular field the Commission is concentrated upon is the prevention of abuse of dominant position. The large firms that exploit their power of market in order to eliminate the smaller competitors are involved in anticompetitive practices that are forbidden by the Community legislation. The Commission grants a special attention to the complaints made by the small enterprises that reflect such situations.

Also, such fusions are forbidden that create or consolidate dominant positions, impeding such potential abuses that may come afterwards. Generally the mergers which imply SMEs are not object of a Community control, because these cases do not have a European dimension. However, some arrangements between the large companies can damage the competitors, against the smaller enterprises. The most familiar examples are the arrangements regarding the prices or the cartel in which the companies establish as commonly agreed on the level of prices, thus the clients cannot benefit from the competition between the suppliers in order to obtain lower prices.

On the other hand the arrangements between the SME's are to a high extent

exempted from the interdictions stipulated in the Community treaties.

These should be able to protect from the competitors from abroad who do not observe the rules. The objective of the European commercial protections tools TDI is to protect the European companies from the commercial un-loyal practices from the third countries, as well as against the dumping or subventions that negatively transform the market. Also, these instruments protect the European producers in case of some strong and instant waves, of unforeseen import. The antidumping anti-subvention measures aim to re-establish an efficient and loyal competitiveness on the inner market. These instruments have an important role for the SMEs. The Commission has initiated communication and counselling actions especially by the Euro-Info Centres willing to assist the SMEs in their work with these instruments.

Also an assistance office was launched for the SMEs. At the same time the Commission views upon the third countries in order to verify whether they use the commercial protection instruments legally and correctly, directed against the EU. If needed, the Commission intervenes to guarantee the access of the European companies on the third country markets, many representing a problem to the SMEs.

3. Conclusions

The development policies of European level aim to improve the existing situations, to eliminate the existing disfunctions, the balancing of the future development and consolidate the developing directions.

According to the specific situation on local level the development policies may be separated as:

- Policies based on opportunities that allow the contractation of weaknesses-combinations that support strategies directed towards change.
- Policies based on opportunities sustaining strengths – combinations that sustain offensive strategies.
- Policies based on weaknesses and threats –combinations that support defensive strategies
- Policies based on strengths and threats – combinations that sustain diversified strategies

For each one of the given policies development programs are proposed, as general formulas, which at the stage of the action plan will turn into groups of projects, whose accomplishment will lead to the implementation of development policies.

The success in solving of the problems of economic development of the SMEs and of the implementation of the adopted policies can be attained only through collective efforts of the governmental, private and non-governmental sectors.

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SOME ASPECTS REGARDING INTERNET ADVERTISING

Ioana CHIŢU¹

Abstract: *The aim of this paper is to examine internet advertising, to understand its strengths and weaknesses, to compare the content and potential of traditional media with Web sites and to describe the specific types of internet advertising. The paper also tries to present some facts and figures regarding internet advertising.*

Key words: *advertising on-line, Internet, Web site.*

1. Introduction

The use of the Internet as a means of communicating with a specific audience is becoming an increasingly important aspect of contemporary marketing communications. The Internet actually began in the early 1960s as a twinkle in the eye of the US department of Defense, which saw it as a means of supercomputer communication for researchers and military facilities across the country. Until its commercial explosion in the 90s, the Internet remained a relatively obscure network of linked computers used mostly by academics, military researchers, and scientists around the world to send and receive electronic mail, transfer files, and find or retrieve information from databases.

2. Literature Review

In comparison with traditional media, the Internet provides an interesting contrast. The time within traditional media is limited and costs rise demand for the limited space increases. On the Internet space is unlimited, so absolute costs remain very low and static, while relative costs plummet as more visitors are recorded as having been to a site.

The economic crisis today forces companies to become involved in finding cheaper, directly measurable ways of promotion to gain the attention and trust of consumers. This does not mean that it will give up other advertising channels, the classic television, radio, press, but it seems that it will reduce investment in them, especially in less visible promotional activities such as sponsorship, for example.

Generally, advertisers tend to emphasize the emotional rather than informational aspects, particularly within low involvement categories.

The digital media allows focus and the provision of information, and so the emotional aspect of advertising messages, tends to have a lower significance. As branding becomes a more important aspect of Internet activity, it is probable that there will be a greater use of emotions, especially when the goal is to keep people at a Web site, rather than driving them to it. Management control over the Internet - based marketing communications is relatively high as not only are there greater opportunities to control the position and placement of advertisements, promotions and press releases but it is possible to

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change the content of these activities much more quickly than is possible with traditional media. The goals outlined above indicate the framework within which advertising needs to be managed.

There are other differences but the dominant message is that these types of media are, to a large extent, complementary, suggesting that they should be used together, not one independently of the other.

Generally, the companies can focus on four specific marketing goals in an online advertising campaign: generating brand awareness by putting or reinforcing the brand in the evoked set of consumers; shaping brand image and brand attitudes by defining, reinforcing or changing the set of associations that differentiate the brand from competing products and improve consumers' knowledge and judgement about a brand; generating trial by attracting new buyers to the brand by attracting brand switchers or consumers who have never tried the product category before trial stimulation implies an increase in the brand penetration rate in a certain market; creating loyalty by influencing consumers' buying behaviour in the sense of increasing the number of satisfied and committed buyers. Striving for consumer loyalty is also a cost-saving strategy as research indicates that the cost of attracting new customers can be as much as six times greater than the cost of retaining customers.

The most common types of Internet Advertising are Web sites, banners, buttons, sponsorships and interstitials.

Web sites typically consist of a *home page* and an indefinite number of subsequent pages that users can visit for further information. A banner is the most basic form of Web advertising. A banner is a little billboard that spreads across the top or bottom of the Web page. When users click their mouse pointer on the banner, it

sends them to the advertiser's site or a buffer page. The banner is the electronic business card of a company and can constitute first contact with an organization. Similar to banners are buttons, small versions of the banner that often look like an icon and usually provide a link to an advertiser's home page. Since buttons take up less space than banners, they also cost less. Skyscrapers are a thin and small format, typically along the right side of a web page. Pop-ups are banners that appear in a separate window on top of or beneath the visited website. Another form of advertising on the Internet that is growing in popularity is the sponsorship of Web pages. Corporations sponsor entire sections of a publisher's Web page or sponsor single events for a limited period of time, usually calculated in months. In exchange for sponsorship support, companies are given extensive recognition on the site. An interstitial is an animated ad that pops up on the screen while the computer downloads a Web site that the user has clicked on; they are alternatives to banners and appear in the main browser window for 5-10 seconds.

A specific type of targeted on-line advertising is keyword buying, this is advertising on large search engines such as Google that is triggered by specific keywords and search terms and which appears alongside the search result. These smart ads ensure higher impact and low waste for advertisers looking to target genuine potential customers. This type of advertising uses the unique benefits of the Web as a pull medium. Another smart way of linking is affiliate marketing or affiliate networking; on-line retailers often use this.

3. Internet Advertising in Facts and Figures

The digital age has provided marketers with exciting new ways to learn about and track customers and to create products

tailored to individual customer needs. Digital technology has also brought a new wave of communication, advertising, and relationship building tools –ranging from online advertising.

Worldwide 1.596 billion hosts are interconnected (23.8% of the world's population); the situation is much better in Europe, where almost half (48.39%) of the population are using the Internet.

The growing number of internet users, in the period 2000-2008 was about 274.3% in Europe and 342.2 % in the world.

The main reasons that companies adopt online publicity are: increasing preference for the Internet (45.6% of persons aged between 18-54 years choose the internet as the first source of information); Internet is the communication medium with the fastest growth in history (in 1994 the first on-line banner appears, and today, after 15 years we can speak of an industry of thousands of advertisements billion annually); the demographic characteristics of Internet users are almost ideal for any transmitter (young, dynamic, modern, educated); an online advertising campaign can reach the target audience during their working hours; an online advertising campaign has relatively lower costs compared to other media advertising; an online advertising campaign can be monitored shortly after its launch; an online advertising campaign involves direct and personalized communication with the consumer; advisers can access specific segments of consumers due to the existence of specialized sites; online advertising can help to create and strengthen the promoted brand.

In the United States of America, online advertising totaled 23.6 billion dollars in 2008, but it seems that this year, due to the financial crisis, growth will not be very high (although initial estimates of eMarketer.com talking about a market of online advertising that will reach in 2009

over 28.4 billion dollars) to reach only to 25.7 billion (an increase of approximately 9%).

Specialists speak of a threshold of 25.7 billion dollars in 2009, which will represent an increase of 9% from 2008. U.S. publications take into account a clear and slow growth of online advertising budgets in 2010, when they will be 28.5 billion dollars, following that in 2011 it will return to the increases that we have used so far (32 billion dollars in 2011 and 37 billion dollars in 2012).

Experts estimated that the UK advertising budgets will have the same trend. Thus, if the market in 2008 totaled 6.41 billion dollars, in 2009 it is expected to increase by 7.4% of budgets allocated to online advertising, to the amount of 6,8-6,9 billion dollars. According to estimates by Barclays Capital, the advertising market will recover slightly from 2010, when it will record an annual increase of 1% of expenditure for advertising. Areas that will regenerate the fastest would be cable television and internet.

Romania was located in 2008 ranked 8 in Europe in terms of number of Internet users (7.4 billion users); according to Internet World Stat. Internet penetration among the population of Romania was very fast, therefore, during 2000-2008, the increasing number of users was 828.8%. According to studies conducted on Internet users in Romania, it seems that the Romanians (18-39 years) using the Internet for e-mail (49%), information (37%), other things (14%).

According to the Intact Interactive report made in April 2009, the online advertising market has experienced an increase in the first 3 months of 2009 (from 72 campaigns served in January 2009 to 143 in March 2009); March marks the "icing" of the online advertising market; the most active online advertisers in categories were

Financial Services, Automotive and Telecom.

4. Some Conclusions

The widespread use of the Internet is having a dramatic impact on both buyers and the marketers who serve them. Much of the world's business today is carried out over digital networks that connect people and companies. Internet usage and impact continues to grow steadily all over the world. Thus, the Internet has fundamentally changed customers' notions of convenience, speed, price, product information and service.

It seems like advertising on the Internet – online advertising- is and will remain the most convenient, cheapest and one of the most effective means of promotion.

Because of the increasing users' number and of the quality and enriched content of information, online advertising is in continuous development, and a proof is the growing number of companies that advertise on the Internet.

In our country, firms are starting to allocate an increasing share of their promotion budgets to promote on the Internet. This is due both to the very rapid growth in the number of users, as mentioned above, by 828.8% in the period 2000-2008, as well as to the obvious

advantages offered by it as a medium of communication.

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MULTI-LEVEL MARKETING - A TOOL OF RELATIONSHIP MARKETING

Cristinel CONSTANTIN¹

Abstract: *This paper aims to analyse the opportunity of using multi-level marketing (MLM) as a tool of relationship marketing. The research is firstly based on an analysis regarding the issues about the legality of MLM techniques in the context of EU and US regulation systems. The outcomes of this research stress the main characteristics of legal network marketing and how a person which wants to become independent distributor could avoid the cooperation with an illegal pyramid scheme. The second research is based on a case study at the level of an insurance broker, which emphasizes the benefits that all parties involved in a transaction (broker, distributor and customer) could obtain by using an MLM scheme.*

Key words: *multi-level marketing, relationship marketing, insurance sector.*

1. Introduction

This paper is about a part of our research done in order to find powerful tools that can strengthen the marketing activities of companies. In our previous research studies we found that the importance of relationship marketing for the successful business is accepted on a large scale in the specialty literature. The need to adopt relationship marketing comes as a result of diversification in customers' requirements, the companies being forced to establish strong relationships with their customers, to maintain them and to create a basis of mutual cooperation in the long term.

Relationship marketing can be implemented in multiple ways through an active involvement of all marketing activities, from the links with the environment factors to a rethinking of all policies and strategies related to the marketing mix.

Starting from these considerations, we focused on the distribution system used by an enterprise, the main objective of our

research being to find better tools of relationship marketing. Among these tools, direct sales and its particular case "Multi-Level Marketing" use the best techniques meant to establish long-term and profitable relationships in spite of higher criticisms from many authorities. The research is based on a case study of the distribution system established by certain insurance brokers in Romania.

2. Literature Review

Relationship marketing is defined as building, developing and maintaining strong relationships with customers and other stakeholders in order to obtain a high profitability (Berry, 1983, Grönroos, 1989, 1994, 1996, Hunt, 1994, 1997, Mattsson, 1997). The motivation of consumers for engaging in relational exchanges is the perception that the benefits of engaging in relational exchange with particular firms exceed the costs incurred. Morgan and Hunt(1994) identify "relationship benefits" as a key antecedent for the kind of

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relationship commitment that characterizes consumers who engage in relational exchanges. Furthermore, consumers desire relationship partners that they can trust. They do so because a trusted partner reduces the risks associated with relational exchange, because trust is associated with a partner's reliability, integrity, and competence (Hunt, Madhavaram, Arnett 2006). All of these are reasons of customer satisfaction that generate additional benefits at the level of companies, which can also trust their customers and the achievement of their objectives.

When we speak about multi-level marketing (MLM), it can be observed that its techniques are proper for establishing strong relationships inside the distribution channels of a named company. Multi-level marketing (also called network marketing) is a form of direct sales in which independent distributors sell products, usually in their customers' home or by telephone. In theory, distributors can make money not only from their own sales but also from those of the people they recruit (Barett, 2008).

The parent company promotes its products directly to consumers by means of relationship referrals and direct selling. The distributors undertake both selling and promotional activities, so that the company very much cuts its costs dedicated to promotional activities.

Independent distributors develop an active customer base, which buys the company's products, in order to earn a commission or the difference between the wholesale and retail price. Additionally, distributors build their own downline of independent distributors who also build a customer base, thereby expanding the overall organization (Gonzales, 2008).

Typically the downline network of a member grows in a pyramid fashion. In some schemes there is a restriction that one member A can directly appoint only two

members under him (B and C or Right and Left). He can invite further members, but they have to be put under B or C. Thus, the distributor A is forced to help the downline while expanding his own business (Sreekumar, 2007). The network develops in a binomial system (see fig. 1).

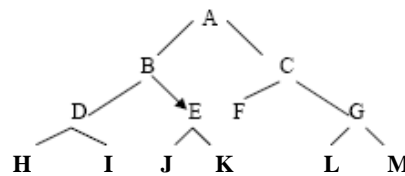


Fig.1. *Example of a downline in binomial system*

In other types of scheme there is no restriction regarding the number of distributors placed on the next level under a named individual. Nevertheless, in order to be promoted on the hierarchical scale, a distributor must have a fixed number (2 or 3) of direct members placed at a maximum of 2 levels below on the named scale. Thus, the promotion is related both to the individual and downline performance.

Distributors earn a commission based on the sales efforts of their organization, which includes their independent sale efforts as well as the leveraged sales efforts of their downline. This arrangement is similar to franchise arrangements where royalties are paid from the sales of individual franchise operations to the franchiser, as well as to an area or region manager. Commissions are paid to multi-level marketing distributors according to the company's compensation plan. There can be multiple levels of people receiving royalties from one person's sales (Gonzales, 2008).

Many distributors fail thinking they can earn rapid profits from their downline, without high investment or hard work. In this respect, Maloney (2006) wrote in its "Business Tips" that "if you are trying to

get rich quick, perhaps the lottery would give better odds; MLM takes real work to be successful”.

3. Issues Regarding MLM

Some debates according to many similarities between MLM and Pyramid schemes generated issues at the level of European Union and USA regulatory systems.

Many companies which develop MLM networks promise higher profits to their distributors based on the extra-commission earned from their downline. Other firms do not provide all the information about their products to their customers and distributors, or give false information. All these practices are considered unethical, being classified as “misleading commercial practice”.

A commercial practice is misleading when it contains false information or omits information that the average consumer needs, according to the context, to take an informed transactional decision and thereby causes or is likely to cause the average consumer to take a transactional decision that he would not have taken otherwise [6].

Other criticisms consider MLM as being an aggressive practice, as far as the distributors visit the consumers at their home and try, in various ways, to convince them to buy products that they do not really need. On the other hand, some companies force the distributors to buy high quantities of goods without any possibility for the latter to return the unsold products. Thus, the distributors are forced to buy the products for themselves [4].

A commercial practice shall be regarded as aggressive if, by harassment, coercion, including the use of physical force, or undue influence, it significantly impairs or is likely to significantly impair the average consumer’s freedom of choice with regard

to the product [6].

Multi-level marketing was also subject to debates at the level of the European Union, the European Commission being sponsor of some research programs with the aim to study whether and to what extent it is necessary to have European rules on multi-level marketing. One of these studies emphasized that MLM techniques have been, and still are, criticised for containing elements of the well-known, but usually banned, “pyramid and snowball systems”. This is because multi-level marketing allows, at least in theory, for the erection of an endless ladder of marketing levels [5].

According to the same study, pyramid and snowball systems allow the members of the distribution chain to receive bonuses for recruiting new members of the network or a part of the initial investment made by the new members. There are included in the same category those systems in which a member earns commissions only related to the continuous purchases of the new members introduced by him into the network.

The regulation of illegal pyramid schemes received special attention from USA authorities as well. According to the Federal Trade Commission, in a pyramid scheme participants hope to reap financial rewards well in excess of their investment, based primarily on the fees paid by members of their “downlines”.

Other private organizations proposed various guides for customers, which try to make better distinction between a legitimate MLM plan and a dangerous pyramid scheme. Such a guide is presented by the USA National Consumer League (NCL), which was established to protect and promote social and economic justice for consumers and workers in the United States and abroad (see Table 1).

Comparisons between MLM and Pyramid schemes

Table 1

	Multi-Level Marketing plan	Pyramid
Business focus	Sales of products and services to end-users (NOT other distributors)	Recruiting new members.
Profits	Primarily based on the sales of products and services by the distributor. Perhaps some percentage of income from sales by downline recruits.	Primarily membership fees paid by new recruits or “bonuses” for meeting recruitment goals.
Products or services for sale	Household goods or services that consumers typically use in everyday life. Goods and services are priced competitively with traditional retail outlets.	Often a thinly-veiled and poorly-made “miracle” product or service that few consumers want or need. Merchandise is typically priced well above comparable products sold in retail stores.
Start-up costs	Low or none at all.	Often involving recurring “membership” fees or expensive “educational,” “training,” or “advertising” materials that can easily be found free of charge elsewhere.
Support system	Low-pressure, eager to answer questions about the business and provide detailed information in writing upon request, such as a business and marketing plan	High pressure, with a constant focus on recruiting new members of the scheme. Hard to reach when questions arise.
Employee/customer references	Eager to provide references who provide honest evaluations of the viability of the MLM plan and the work necessary to succeed.	Unwilling or unable to provide references or only provides references who themselves attempt to recruit a caller.
Sales pitch	Provides detailed information about the work involved. Offers no promise of easy riches. Does not use high-pressure sales tactics.	Involves promises of large profits with minimal work, often in high-pressure seminar environments. Uses phrases like “limited time offer,” “can’t miss opportunity,” and “guaranteed income.”
Info available?	Has a good report with the consumer protection agencies and is registered with the local Chamber of Commerce.	Not registered with the local Chamber of Commerce. Information about the company is scarce or limited to a Web site.
Getting out of the business	Easily accomplished and accompanied by a reasonable merchandise buy-back program	Difficult, with high-pressure tactics used to keep participants in the scheme, possibly accompanied by pitches to spend more money on “training” to improve performance.
How long the business will last	Sustainable, based on repeat sales of products and services	Doomed to collapse
How likely you’ll profit	Profits are based on time and effort devoted to selling goods or services to consumers.	The vast majority of participants lose money.
The bottom line	It’s a legal business opportunity that may or may not be a good fit for you.	It’s illegal. Don’t waste your money.

Source: www.fraud.org – A guide from NCL’s Fraud Center

In conclusion, beyond the issues regarding the legality of MLM networks, both at the level of the USA and the EU it is recognised that those plans managed according to business ethics and respect regarding customers and members of the distribution

network could be considered correct and legal commercial practices.

4. Applications of MLM on the Insurance Market

Our research is based on a case study of the distribution system established by several Romanian brokers that operate in the insurance sector. The main objective of this research was to identify the importance of MLM schemes for brokerage activities and their influences on the implementation of relationship marketing.

Insurance products are in essence special services regarding the risk transfer from the service beneficiary towards an insurance company, in exchange for an amount of money, called insurance premium.

Due to the fact that such services, as the majority of services, are not tangible and particularly involve a significant money investment that is usually not recovered if the risk does not happen, the process of selling insurance services is quite difficult.

There is a well known joke among insurance sellers, which states that “nobody goes to a supermarket (or other shops) in

order to buy an insurance policy”. In this context, the insurer agent has to contact the potential customers, to identify their necessities and to offer them insurance programs that better fit their needs. Thus, a strong relationship is developed between the agent and customer, which often exists before the transaction, as the insurance sellers seek their prospects firstly among their acquaintances and relatives.

Taking into consideration the above mentioned particularities, many brokerage companies that deal in the insurance sector establish multi-level marketing networks that expand very fast and cover a large part of the national territory.

In Romania, there are insurance brokers that record high turnovers using MLM as the main distribution system. Such companies, like Kundenbroker, Eurobrokers Group, Destine Broker, MaxyGo are situated among the biggest brokers on the local market. Their networks contain 10-12 levels with specific tasks inside the sale process. Such a network is presented in Fig. 2.

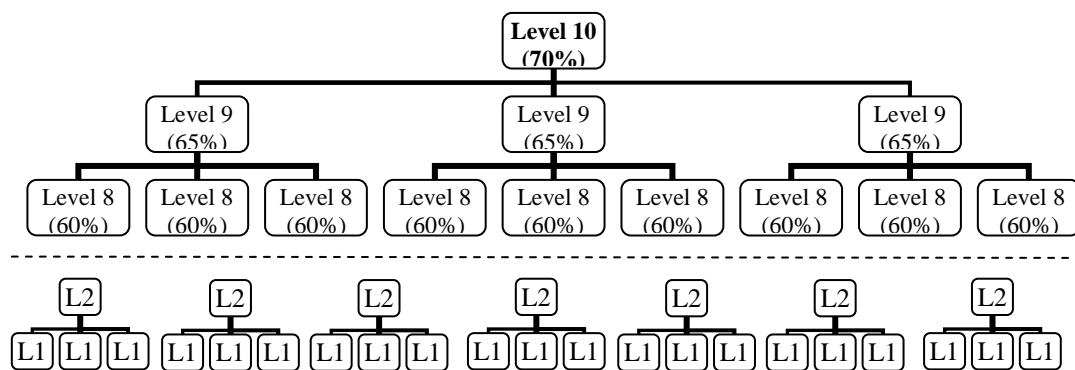


Fig.2. An example of MLM network used by insurance brokers

In order to be promoted to a higher level inside such a network, a distributor must have at least 3 direct distributors on the next level below. In addition, all his downline should account for a specified number of points according to the total sales of insurance policies. Thus, a distributor has to work in order to keep all the time a high level of sales

and to develop his downline so as to have at least 3 direct members at a maximum of 2 levels below him. As presented in Fig. 2, the distributors situated on the 9th level could be promoted to the 10th level, on condition they have enough points accumulated from insurance sales.

The earning of every distributor has two components: a direct commission from his direct sales and an extra-commission from the sales made by his downline. The commission rate depends on the level of network, being calculated as a ratio from the total income collected by the broker for the insurance sold by a downline structure. For instance, a distributor situated on the 10th level earns 70% of the total commission paid by the insurer for the sales made by himself and his downline. This commission is cashed entirely for his personal sales and from his downline, the distributor is entitled to receive the difference between the levels' ratio. In this respect, a member of the network from the 10th level will receive 5% of all the commission generated by one of his direct distributors from the 9th level together with his entire downline.

A distributor situated on the 10th level could not receive an extra-commission from a direct distributor promoted on the same level, but he can receive a bonus according to the total sales of that downline.

Such a network grows very fast, requiring a huge effort to manage all the structures and the entire selling process. For example, a distributor from the 10th level, which has a downline with only 3 direct members at every level below, records $3^1+3^2+3^3+\dots+3^9=29523$ members in its own structure. In order to keep this amount of people under control, every distributor which has a downline is in charge with the management of their direct and indirect distributors, being entitled to receive the extra-commission for these efforts.

5. Conclusions

As a tool of relationship marketing, the development of a downline for every member of the distribution channel leads to a rapid expansion into the market, with high profits for the promotional activity. The company should invest almost nothing in promotional campaigns, its products being promoted using a "word of mouth" technique. This technique generates a high level of confidence among consumers as the promoters are their friends or relatives.

One of the most important reasons to join an MLM network is that firstly the distributor likes the products that are going to sell. Additionally, the product has to be consumable and with a good quality-price ratio as prerequisites for customers to make repeated purchases. We can find such a case in the insurance sector, where the representatives of brokers could offer to their customers the best solution for their needs, taking into account both the price and the main characteristics of the insurance. This situation is possible as a result of the cooperation between the broker and more insurance companies.

Taking into consideration all the above mentioned, MLM could be considered a powerful tool of relationship marketing.

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MARKETING RESEARCH USING ONLINE SURVEYS

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Abstract: *In this article, quality criteria for electronic survey design and use based on an investigation of recent electronic survey literature are presented. The results show that a hard-to-reach audience can be reached using the quality criteria that are most important for reaching these types of audiences. It is presented one online questionnaire for the academic staff community at Transilvania university of Brasov, Romania. The Limerik one was tested.*

Key words: *marketing research, academic research, online survey.*

1. Introduction

Some knowledge concerning the design and use of paper-based surveys does translate into electronic formats. However, electronic surveys have distinctive technological, demographic, and response rate characteristics that affect their design, distribution, and response rates. In this article, we present the results of a comprehensive investigation into the nature of electronic surveys and current methodological approaches.

Quality criteria across five important methodological components are explored.

These include survey design, participant privacy and confidentiality, sampling and participant selection, distribution and response management, and survey piloting.

This is followed with a case study of one survey applied at Transilvania University, using the Limerik type of electronic questionnaire. Text-based e-mail electronic surveys have existed since 1986 and Web-

based surveys since the early 1990s (Kehoe & Pitkow, 1996, [2]; Kiesler & Sproull, 1986, [3]). The differences between the two have been reduced now that e-mail is multimedia capable. However, there are several important differences. Web-based surveys allow automatic verification and survey response capture in databases. Copyrighted software applications such as SurveyWiz, FactorWiz, QUIS, Survey Pro, Survey Said, Zoomerang, Survey Monkey, and WebSurveyor eliminate manual construction and 186 Andrews, Nonnecke, Preece administrative challenges (Birnbaum, 2000; McCoy & Marks, 2001, [3]). However, Web-based surveys do not provide e-mail's "push" affordance and must be integrated with it to create the "pull" effect to bring people to the survey.

2. Survey Design Quality Criteria

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- Supports multiple platforms and browsers/e-mail clients;
 - Controls for browser settings;
 - Detects multiple submissions automatically;
 - Presents questions in a logical or adaptive manner, for example, provides control of when and how questions are displayed;
 - Allows saving responses before completion;
 - Collects open-ended or quantified-option responses;
 - Provides automatic feedback with completion;
 - Uses paper questionnaire design principles. Provides automatic transfer of responses to a database;
 - Prevents survey alteration;
 - Provides response control and economical displays;
 - Provides for links to definitions, menus, button and check box options, animation, sound, graphics options, and so forth;
 - Does not require familiarity with survey presentation software;
 - Displays appear quickly to participant;
 - Tracks response source of response failure.
- Send invitations and surveys separately
 - Collect data through Web pages
 - Provide multiple response options
 - Use “re-mailers” to ensure anonymity
 - Do not troll through observation
 - Do not use “cookies”
 - Do not use links from personalized sites
 - Provide disclosures
 - Provide third party privacy certification
 - Use credible domains
 - Use encryption for sensitive material
 - Use hypertext links for long disclosures
 - Disclose sampling procedures
 - Obtain community leader consent
 - Provide survey results to respondents
 - Use self-selected user identifications and passwords (option)
 - Provide “rather not say” response option. Allow people to “opt-in” (Establish credibility quickly through subject lines and opening statements. Guarantee that no one will see one’s personal data, not anonymity as researchers will know who the participants are, and explain the method for maintaining confidentiality .

3. Privacy & Confidentiality Quality Criteria

- Participants can designate conditions of release, use, retention and disposal of personal data
- Sample only from public e-mail lists, online communities and automated mailing lists

4. Survey Design Features Affecting Response Rates

In Transilvania University of Brasov, Romania we design one online questionnaire tasted to academic university staff about **Attitudes, Difficulties and Interest of the Academic Community in Institutional Repository**.

We present our design of survey and methodology:

Warning: You are still using the default password ('password'). Please change your password and re-login again.

Administration - Logged in as: admin

Surveys: ATTITUDE, OPINII SI COMPORT...

Survey: ATTITUDE, OPINII SI COMPORTAMENTE ALE CADRELOR DIDACTICE UNIVERSITARE PRIVIND CONSTITUIREA UNUI DEPOZIT DIGITAL INSTITUTIONAL CU PRODUCTIA STIINTIFICA A UNIVERSITATII TRANSILVANIA (ID:12256)

Groups: Please choose...

Edit survey - step 1 of 2

General Presentation & navigation Publication & access control Notification & data management Uploaded resources management

Base language: Romanian - Română

Additional languages:

Administrator: Your Name

Admin email: your@email.org

Bounce email: your@email.org

Fax to:

Save and continue >>

Fig. 1. How to do a survey

We used Limerik.

Warning: You are still using the default password ('password'). Please change your password and re-login again.

Administration - Logged in as: admin

Surveys: ATTITUDE, OPINII SI COMPORT...

Survey: ATTITUDE, OPINII SI COMPORTAMENTE ALE CADRELOR DIDACTICE UNIVERSITARE PRIVIND CONSTITUIREA UNUI DEPOZIT DIGITAL INSTITUTIONAL CU PRODUCTIA STIINTIFICA A UNIVERSITATII TRANSILVANIA (ID:12256)

Groups: Please choose...

Title: ATTITUDE, OPINII SI COMPORTAMENTE ALE CADRELOR DIDACTICE UNIVERSITARE PRIVIND CONSTITUIREA UNUI DEPOZIT DIGITAL INSTITUTIONAL CU PRODUCTIA STIINTIFICA A UNIVERSITATII TRANSILVANIA (ID:12256)

Survey URL (Romanian): <http://icon.unibuc.ro/limesurvey/index.php?id=12256&lang=ro>

Description: ATTITUDE, OPINII SI COMPORTAMENTE ALE CADRELOR DIDACTICE UNIVERSITARE PRIVIND CONSTITUIREA UNUI DEPOZIT DIGITAL INSTITUTIONAL CU PRODUCTIA STIINTIFICA A UNIVERSITATII TRANSILVANIA

Welcome: In vederea efectuării unui studiu privind „ATTITUDE, OPINII SI COMPORTAMENTE ALE CADRELOR DIDACTICE UNIVERSITARE PRIVIND CONSTITUIREA UNUI DEPOZIT DIGITAL INSTITUTIONAL CU PRODUCTIA STIINTIFICA A UNIVERSITATII TRANSILVANIA”, vă rugăm să aveți amabilitatea de a răspunde la următoarele întrebări. Vă asigurăm de confidențialitatea răspunsurilor dumneavoastră. Conștiinținea acestora este de o mare importanță pentru reușita cercetării.

Administrator: Your Name (your@email.org)

Fax to:

Expiry date: -

Template: default

Base language: Romanian - Română

Additional languages:

Exit link:

Number of questions/groups: 24/3

Survey currently active: Yes

Survey table name: lme_survey_12256

Hints: answers to this survey are anonymized.
It is presented question by question.
Participants can save partially finished surveys
No email notification
Regenerate question codes: [Straight] [By group]

Fig. 2. How to modify a question



Fig. 3. *Creating one question group*

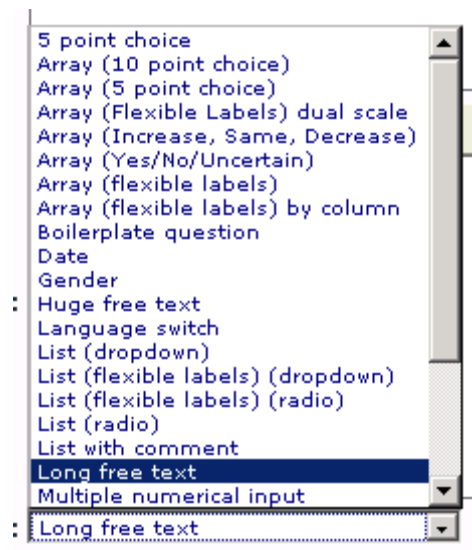


Fig. 4. *Question types*

Following the introduction and informed consent pages, the survey questions were divided into three sections, each having a "submit" (save) button. Questions were not numbered. The first section contained demographic questions, the second section

contained questions about the online community where the invitation was posted, and the last section contained questions about an online community that the participant had permanently left. This last section was optional. Coded questions

used drop-down menus, radio buttons, and check boxes with nominal scales, Likert scales, semantic differential scales, and single and multiple choice selection options (Figure 4). Open-ended questions

were limited to optional opportunities at the end of a coded question set and were presented via text-input boxes with wrapping and scrolling, not single-line entry.

The screenshot shows a survey titled "ATTITUDINI, OPINII ȘI COMPORTAMENTE ALE CADRELOR DIDACTICE UNIVERSITARE PRIVIND CONSTITUIREA UNUI DEPOZIT DIGITAL INSTITUȚIONAL CU PRODUCȚIA ȘTIINȚIFICĂ A UNIVERSITĂȚII TRANSILVANIA". The survey consists of several questions:

1. "Considerați că oferirea unui serviciu de tip depozit instituțional digital de către universitate, reprezintă o condiție esențială pentru atragerea universităților la cercetarea științifică internațională?" (Please choose...)
2. "La care din următoarele tipuri de publicare ați apărut mai des?" (Please choose...)
3. "Va rugăm să ordonați avantajele publicării în acces liber (răspuns multiplu)?" (Your ranking: 1-4)

Accesul cercetătorilor din țară	1:	
Recomandarea științifică pe	2:	
Autorul detine dreptul de a	3:	
Creșterea vizibilității cerc	4:	
4. "Cum apreciați volumul de informații pe care le dețineți, dintr-o publicare în acces liber?" (Please choose...)
5. "Considerați că este nevoie de constituirea unui depozit instituțional digital cu producția științifică a universității?" (Please choose...)
6. "Va rugăm să apreciați calitatea informațiilor deținute de aceste materiale:" (Please choose... for each item)

Proiectele de diplomă a studenților	Please choose...
Dizertații masteranzilor	Please choose...
Tese de doctorat	Please choose...
Volumele unor conferințe	Please choose...
Buletinul universității	Please choose...
Articole științifice	Please choose...

Fig. 5. *Introducing data and visualizing questions*

The screenshot shows the "Export results" interface. It includes a "Column control" panel with a list of columns to be exported:

Column	Header
1	id
2	completed
3	122963392
4	122963394
5	122963391
6	122963392
7	122963393
8	122963394
9	122963394
10	122963394
11	122963394
12	122963392
13	122963394
14	122963394
15	122963394

Fig. 5. *Results*

5. The Quality Criteria for Electronic Surveys Provide Choices

We did not implement all the recommended criteria for quality electronic surveys but did implement those that made sense for the research objectives, context, and content of this study. As discussed previously, the survey succeeded in

reaching a significant portion of hard-to-involve academic staff online community participants. From the case study experience, the most important criteria contributing to survey success appeared to be the following:

- For design, all the criteria except adaptive question presentation, which was not used.
- For privacy and confidentiality, the criteria of full disclosure of study purpose and sampling procedures, those items that help to establish researcher credibility, and the promise of confidentiality and not requiring identification, although as mentioned earlier, compromises may be needed to protect researchers from unpleasant, unsolicited e-mail.
- For encouraging high response rates, the multistep invitation and survey presentation process. Most important, we responded to all inquiries rapidly and in detail.

6. Conclusion

The electronic survey had good participation from the community that we wanted to survey.

Dependance on internet connection, and not having the possibility of saving answers, led to having a few abandoned initiatives.

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QUANTITATIVE STUDY REGARDING THE SME`S ORGANIZATIONAL BEHAVIOUR AS REGARDS MANAGEMENT CONSULTANCY SERVICES

Daniela MIHAI¹

Abstract: *The objective of this paper is to emphasize some of the most important results of a quantitative study, based on a survey implemented by the author herself. The current research investigates the attitudes, opinions and behaviour of the SME`s managers from Brasov, regarding management consultancy services. Research findings have indicated that the management consulting sector occupies a weak position on the market of business advisory services designed to micro, small and medium enterprises, in the county of Brasov.*

Key words: *management consultancy, services, quantitative research, SME`s.*

1. Research Methodology

The subjects chosen for this research were represented by companies based in the county of Brasov, which are part of the category of micro, small and medium sized enterprises, as a representative target group for management consulting services.

Given the important share owned by the Centre Region, regarding the distribution of national SME`s, I consider that the particular segment of companies chosen for this research may be a representative model in terms of behaviour and management strategies as regards the use of consultancy services.

Starting from this premise, I anticipated a low level of use of management consultancy services among the SME`s and the hypothesis was confirmed by the obtained results.

Overall, these results come to reinforce the general status of the Romanian

management consultancy sector, which is at an early stage of development, being far below the level recorded in the European Union and beyond.

2. Main Results of the Survey

Following research conducted on the sample of three hundred and eighty four SME`s, it has been established that most of the managers consider it appropriate to call on specialists from outside the organization to resolve the various issues facing the enterprise (58.3 % of respondents indicated an affirmative response in this respect).

This positive view is motivated by the managers` beliefs that specialists can provide access to specialized information. Another motivator is represented by the experience in multiple areas and objectivity that characterize this category of service providers.

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It is interesting to note how the responses of the interviewed managers were distributed as regards the reasons for not using a specialist in their company. In this respect, 41.7% of respondents indicated that using a specialist is not a real opportunity for the company, which can make us consider this an alarming percentage for the future of management consultancy services, in relation to the SME's sector.

The explanation for this percentage is reflected by the financial management of the SME's, as the services of a specialist are considered an "additional cost" for the company (24.4% of total responses) and, moreover, a cost too high for the financial capacity of the company (22.6% of total responses).

The conclusions drawn from this research also indicate an acute lack of information among the SME's managers regarding the field of management consultancy services. This claim can be supported by the findings resulted from question number 8 from the questionnaire, in which respondents expressed how informed they considered themselves to be on the subject mentioned above.

The responses have shown that the level of information on business advisory services tends to be relatively low, the average level of information being 2.62 points on a scale range, with equal distances between levels, from 1 to 5 (5 = to a large extent). This is primarily due to an inefficient communication and information policy implemented by consulting companies, especially when it comes to informing their target groups on the content and benefits of their services.

However, managers are interested in learning more about the field of business consultancy, and the Internet is considered

to be the most useful source of information (26.60% of responses).

Emphasis should also be put on the interest of the SME's towards seminars free of charge, organized by consultancy companies in order to supply information (24% of responses) and also towards newsletters sent by the same consulting firms (15.60%), issues highlighted in Figure 1.

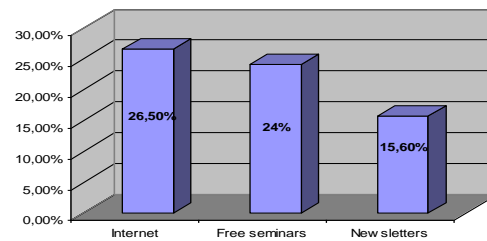


Fig. 1 *Source of information regarding business consultancy services*

Given these results, it is obvious that the respondents trust more the information provided directly by consulting services suppliers. Another aspect that detaches from these results is closely related to a financial component, because none of the three sources of information imply a significant cost for the company.

As regards the information that the analyzed companies would be interested to receive from the consultancy services providers, the category most frequently mentioned was "analysis and statistics regarding the industry in which the company is active" (30.3% of responses). There are also examples of interest for successful business projects (24.3% of responses), as well as for study cases relevant for the portfolio of business consulting companies (23.2% of total responses).

We can say that these last two categories of information help validate the experience of consulting business companies, becoming a relevant business card to the provider. Moreover, the options specified by the respondents confirmed that business consultancy companies are mainly considered to be knowledge providers.

Given the allegations made above, there is a chance that the most important selection criterion of a business consulting company, according to the respondents, be the success rate of the projects completed by the supplier.

In terms of how SME`s evaluate business consulting companies, focus should be given to the opinion according to which the services provided by Romanian consultants, trained either abroad or in Romania, have a higher efficiency than the same kind of services provided by foreign consultants.

A possible explanation can be found in the managers' conviction that Romanian specialists are more familiar with the specific local business environment, the solutions they propose being significantly adapted to its particularities.

As for the perceived usefulness of advisory business services, the view of the SME`s is predominantly positive, considering that this category of services may have a great utility as regards the improvement of the company's activity.

An important aspect of this research was represented by the aim to identify the amount of money that the managers of the investigated SME`s would be willing to invest in management consultancy services.

From this point of view, two objectives have been pursued, namely the assessment of the SME`s intention to achieve annual investment in business advisory services,

and also to identify the value that the managers would give to such business service. Thus, from the 229 subjects who provided a valid response, 22.7% indicated that they would be willing to annually invest an average sum of 100 Euros.

A relatively large number of subjects who have not responded to this question (40.4%) reinforce the idea that the investment in business advisory services is not a concern of small and medium sized enterprises from Brasov. Therefore, being asked to indicate an average sum that they would be willing to annually invest in business advisory services, respondents were in a difficult position, which was easily noticed by the operating interviewer.

One of the general assumptions of this research was that business consultancy services are used by a small percentage of micro, small and medium sized enterprises. The results in this respect have confirmed this hypothesis, where 81% of SME`s have not contracted any business consulting services yet.

The statistical analysis on the number of employees of the questioned SME`s and the use of business advisory services shows that the percentages recorded different values, which indicate a significant difference between the three categories of SME`s.

It is noted that in the case of micro enterprises (firms with 1 - 9 employees), the percentage of those who had not contracted business consulting services is 85.6%, while only 14.4% of those companies have contracted such services.

The percentage of enterprises with up to nine employees, who have bought business consulting services, is significantly lower than for the other two categories of enterprises.

A determining factor for this situation could be the relatively low financial capacity of micro enterprises, which does not permit the allocation of financial resources for the purpose of contracting consulting services.

Thus, the share of those micro enterprises which used consulting services is only 14.4%, while 62.2% of small enterprises and 71, 4% of large enterprises contracted this category of services.

Therefore, we can conclude that the majority of the SME`s included in this research have used business consulting services, mainly by small and medium enterprises, which makes us believe that an increase in the size of the enterprise enhances the need to use advisory services.

3. Conclusions

Research findings have indicated that the management consulting sector occupies a weak position on the market of business advisory services designed to micro, small and medium enterprises, in the county of Braşov.

Although the sample is not representative for all the operators

included in this category, the common characteristics of SME`s make us appreciate that the presented situation is the same in other companies outside the county of Braşov.

Therefore, sustained action is needed from the suppliers of management consultancy services in order to promote the benefits of these services, taking into account that there is a strong need for a greater proximity between the two categories of business partners: suppliers and recipients of business consulting services.

These actions will be integrated in the marketing strategies applied by management consultancy companies, so that the promotion should be complemented with policies related to other elements of the marketing mix.

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TEXTILE MATERIALS WITH NEW PROPERTIES USED IN CLOTHING MANUFACTURING

A. N. NEACŞU¹ A. MADAR²

Abstract: *The quality of textile clothing depends on the quality of prime materials and also on the technology used; this must ensure a balance between transferred heat, resulted humidity and human and environmental thermal demands, all this bringing about physiological comfort. In order to meet consumers' demands regarding the production of products which are easy to maintain and have high hygiene properties, new prime materials are searched, with a view to ensuring a wide range of clothing. Taking into consideration the acceleration of changes and the global inter-connections, a company must develop its capacity of innovation in order to bring products with new properties on the market before others do.*

Key words: *clothing, quality, consumer's protection.*

1. Introduction

In the present context of a wider Europe, an increasingly biting competition is noticeable on the market, also in the textile domain. In order to handle the growing competition, the major problem of the producers' business strategy in this domain is represented by products quality, determined by the design, the development of research activity referring to new prime materials, the use of modern technologies of production and distribution, the consideration of directives and regulations that are under elaboration, the environmental protection, ecological requirements imposed to textile products on European market etc. Clothing is one of the most important things for people, representing a protective layer against multiple external factors which can affect the human body such as ultra violets, cold,

rain etc., and also a social factor, reflecting a certain character of the people wearing it.

2. The Aim and Role of Textile Clothing

Textile clothing comprises products obtained as a result of the superior processing of textile and has the role of protecting the human body from the surrounding environment disturbance factors, influencing, at the same time, the individual and the collective behavior. In some cases, clothing also has the role of signaling the public function (uniforms), or even the position of a person. It is also remarkable the fact that clothing has the role to amplify and point out or create the illusion of different body properties (with its help, the silhouette can be endlessly recomposed). Thereby, through the fabric quality, the chromatic and decoration of each piece of clothing, through the ratio body / clothing and its accessories, the

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same person will have different looks in different situations.

Textile clothing is characterized by a high level of processing, requiring a big number of operations. Therefore, the production growth rhythm and the clothing sales are bigger than in the case of other categories of textile products. This group of merchandise is part of the semi-durable merchandise category, whose moral erosion, caused by the action of the fashion factor, is much bigger than in the case of mechanical-physical or chemical factors.

The quality of textile clothing depends on prime materials quality and also on the technology used; this must ensure a balance between transferred heat, resulted humidity and human and environmental thermal demands, this meaning the capacity to achieve physiological comfort.

3. Obtaining Textile Materials with New and Special Characteristics

In order to meet consumers' demands regarding the production of products which are easy to maintain and have high hygiene properties, new prime materials are being searched *with a view to ensuring a wide range of clothing*.

Agro-textiles functional for environment protection. In Germany, according to a research program, biodegradable agro-textiles were made available, which can ensure environmental protection, meaning the diminution of the problems triggered to forests and plants by pollution with heavy metals, soil acidity, the lack of moisture and nutritive substances. Flax and hemp biodegradable cellulose fiber layers were used and mineral, nutritive and active substances were introduced in between layers, which were consolidated with biodegradable binders or by sewing.

Materials made out of polylactide polymer chemical fibers. The English company Cargil Dow Polymers obtained polylactide polymers from cereals using the Nature Works procedure, which allows textile fibers to be obtained. These fibers

can be used 100% or mixed with wool, silk and cotton for obtaining clothing, furniture clothing, soil coverings, technical articles and so on. Their quality performance and low cost can predict their use for sport clothing.

Bio-textiles are biologically active fiber materials obtained by using bioactive agents in the production process, through imprinting or chemical modification of the textile material, followed by the insertion of bioactive agents. Bio-textiles are named and classified according to the inserted substances and their usage, for example: anesthetics, antibacterial, anticancer, haemostatic etc. These textile materials are used for special medical clothing and in the medical field, with the role of protecting health. In their usage, the duration and speed of delivering the drug can be controlled and toxicity is minor as compared to standard methods of exposure to medicament action.

Super-absorbent fibers or SAP are polymers containing reticulated acid joints (usually acrylic acid) under the form of sodium salt which can absorb water like fluids and can retain them under a certain pressure. Their usage is extended also on the sports market because they ensure the comfort by absorbing the sweat and through exchanges with the exterior environment. In the last years they have been used for packaging, storage and transportation, as they ensure a special protection to the products and consequently contribute to the merchandise safety throughout the whole logistic flow.

Intelligent textile materials. From the multiple means of the word "intelligent", the one that we can give to textiles is the one that regards only their ability to adapt to some environment circumstances or the ability to provide vital information about the body which they are on. Intelligent textiles can be divided into 4 groups:

- Intelligent materials with phase exchange: through micro-enhancement placed on the texture at the same time

with the imprinting paste, which actions as a thermal-regulator for textiles;

- Textile materials which memorize the shape: these materials when heated can recover to a previous shape. The mixed metal titan-nickel, zinc-copper, thermo-plastic polymers are materials which can memorize the shape. Diaplex is a polyurethane polymer made by the company Heavy Mitsubishi Industries for sports clothing and equipment for cool season;
- Chameleon material, with modified chromatic behavior, changeable by light (photo-chromatic fibers), heat (thermo-chrome fibers), electricity (electromagnetic fibers), pressure (pressure sensitive fibers), humidity (solvable chromic fibers);
- Electronic gaskets, which double the clothing, making a system capable of recording and transmitting information about the human body, acting on textiles characteristics, so that the comfort can be improved, signaling when some vital parameters become unstable so that it becomes possible to intervene rapidly to rescue someone's life.

The first intelligent textiles were created for military and navigation use, these domains having serious financing. Intelligent textiles are needed for uniforms, for protecting the soldiers from extreme weather or from physical over-stress.

Anti-bacterial fibers were produced taking into account the fact that people come in contact with bacteria and viruses which can then be found on skin and clothing every day. Inside textile products, bacteria divide rapidly under high temperature and moisture. The category of anti-bacterial fibers comprises the ones produced by R. Stat company. These fibers are obtained from polyamide on which a 0.2 micron thick layer of copper disulphide is placed through a chemical treatment, which is trapped inside the polymer, a thing that assures resistance to wear and multiple chemical treatments. This layer of

copper disulphide gives an excellent anti-bacterial property to fibers. The released copper ions limit the multiplication of the bacteria in the fibers. Tests carried out at Pasteur Institute showed that only 2% of R. Stat anti-bacterial fibers, which are in a textile material, diminish the present bacteria by 99%.

Ecologic fibers Researchers from the textile domain, in collaboration with other specialists, were able to make multiple ecologic fibers such as:

Ecologic cotton is obtained by growing cotton using a minimum quantity of or no chemical products. Worldwide, growing classical cotton requires 65% pesticides, 20% herbicide, 14% growing regulators, 1% fungicide and other toxic substances. Ecological cotton is obtained in small quantities, but the urge for saving the environment will change that. The natural color cotton: after long research programs, which began in 1982 in U.S.A. and Israel, natural color cotton was obtained in colors from brown and red brown to green and olive green. The fibers are commercialized under the name of Fox Fiber and Top Cot.

Eriotex is a new ecologic fiber made by the Finnish Company Kultartuve Oy from a plant named "The swamp cottons". The fibers obtained are warmer than wool, they draw out moisture, are resistant to fire and they are also anti-allergic and anti-static. Mixed with wool, flax or cotton, or 100%, it is used for making suits, coats, sports clothing or furniture clothing.

Biowool is a fiber made of ecologic wool by the Biotex Company through an ecological technology which carries the same name. This kind of fiber does not produce any type of allergy and is selected from a region in the Alps named "Alps de Provence", region considered European natural reservation. Shepherds from this region have maintained traditions since the eighteenth century using natural fields, with no fertilizer. The wool undergoes serious laboratory testing before it can be used for production.

Ecologic hemp. On European markets hemp textiles obtained from hemp grown on fields with very little fertilization and pesticides. The obtained products are very light, hygienic and comfortable.

Pineapple fibers are ecologic fibers made out of pineapple fruits. The material obtained has a sophisticated look and is less utilized than flax.

Algae fibers are obtained from brown algae which renew naturally. Through treatments depending on their content of gluconic and manuronic acid, they lead to obtaining biodegradable ecological polymers, which are base components of algae copolymers. These kinds of fibers are used as bandage in the medical domain, because they have the advantage of creating a healing field with great absorption power (twenty times their weight).

4. Conclusions

In the circumstances of the competition between economic agents, a problem appeared in Romania regarding the preservation of the existent clientele and also of getting new clients, in parallel with the realization of a minimum level of activity efficiency.

It is also noticeable that, because of the permanent growth of clients' exigencies, the advertising accomplished out of other considerations than the outcome of multi-criteria evaluation and the transparency regarding the quality of products / services is less credible and inefficient.

Taking into consideration the acceleration of changes and the global inter-connections, a company must develop its capacity of innovation in order to bring products with new properties to the market before others do.

In the textile domain, the research and innovative activity primarily aims at

finding textile fibers with new properties, which can respond as well as possible to dynamic consumers' requests, and also at using ecologic and natural materials.

There is on-going research regarding those materials which can correspond to a specific category (clothing for sportsmen, thermo-regulating clothing, textile materials which can memorize the shape, anti-allergic fibers etc.), mixing the natural materials with the synthetic ones and applying new technologies.

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THE MAIN METHODS USED IN THE SELECTION AND SUBSTANTIATION OF DISTRIBUTION STRATEGIES

Alina TECĂU¹

Abstract: *Based on an economic model, some comparisons have been made between distributional costs for two kinds of circulations: one long, employing agents, and another short, organized only with personal resources of the reviewed company. The model takes into account the nature and costs for each kind of circulation as well as the structure and nature of activities and responsibilities of each partner through the distributional strategy employed. This reveals the fact that employing one personal distribution circulation - vertical distribution system – is more efficient than the distribution by means of agents only when it starts with a certain level of the amount, and is more convenient in the long channel where the agent pays a large part of the fixed costs.*

Key words: *distribution channels, economic calculus, the cost of a distribution circuit.*

1. Introduction

One of the strategic business issues is the choice of distribution system, provided it actually involves strategy of integration into a circuit or system of circuits with the obligations, the consequences arising from this relationship. Choice of variants of distribution must be well-founded, with first choice in weighing the advantages of a circuit and on the other, the drawbacks or limitations which they impose. According to experts opinion, to the choice of distribution strategies contribute more aspects which include: category of intermediaries acting in different areas of the market, the number of circuits that can be obtained as strategic alternatives; the size of distribution circuits, the nature and degree of specialization of the Marketing channel used, the structure of each channel and the degree of selection of distribution,

the rights and obligations of each participant in the distribution system; the implications on strategic alternatives over the management process of the company.

Among the issues that define the background of distribution strategies, the most important coordinates are: determining the structure of the distribution circuit to be adopted and the type of relationships to be established and maintained by intermediaries; identification and clear indication of the intensity and concerns of market coverage; the structure of communication tactics to be adopted in relations with intermediaries and with intermediary or end users. To these issues other elements, such as calculation of economic and management issues, are added in the substantiation process - particularly those on the control and the possibilities for

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adaptation. Strategic thinking begins with setting objectives for distribution.

They are derived from strategic marketing objectives, which in turn arise from the overall development strategy of the company. The objectives of the strategy of distribution usually concerns: choosing a distribution channel for each segment of consumers; adapt to market conditions; reduce the cost of logistics; eliminate conflicts in the distribution channel; to exercise control in the distribution channel. Diversification of marketing format, the width of marketing assortment and territorial coverage are also elements that plays an important part in defining the strategy of distribution. Determining the structure of the distribution to be adopted is one of the main elements on the background of the distribution strategy. In this respect, at least in theory, managers have a choice between a direct distribution system, without intermediaries and a system that will involve a larger or smaller number of intermediaries. In the modern economy, producers are however, often forced to use intermediaries. If we talk about indirect distribution, an important element in the strategy of distribution is the type of cooperation existing between the intermediaries, depending on the type of vertical structure.

Regarding the second "pillar" that the distribution strategy is based on, determination and a clear indication of the intensity of concerns for covering the market, it is considering strategic options to be present in an area as large as possible on the market and closer to the end user.

In general, the factors that influence the directions of development of the distribution companies are related to: the evolution of consumption and consumer behaviour, the capacity to cover the market through an intensive distribution, selective or exclusive but also issues related to

commercial legislation, strategies adopted by competitors.

2. Economic Calculation

Economic calculation, evaluation of marketing costs of the different volumes of goods, through the various types of circuits or channels of distribution, proves to be one of the most important aspects involved in the substantiation process because each strategic option will lead to different levels in terms of sales and costs. Managers are required to determine whether using their own sales force or contrary to one or more intermediaries, the organization can achieve a higher volume of sales and better relative costs.

The cost of a distribution circuit is measured by the margin distribution, which represents the difference between the selling price to the final user or consumer and producer price paid to producer. The margin distribution is so identified with the concept of value added by distribution, for distribution circuits - short, medium and long - in which more intermediaries are involved, the margin of distribution is the sum of successive intermediary's margins. The margin of a participating dealer in the circuit is the difference between selling price and the price at which it buys. When the circuit is made by a single intermediary, the two concepts overlap.

The margin distribution is expressed usually as a percentage, or in relation to the sale price to the consumer - the public price, either in relation to the purchase price. Depending on the two possible situations - the public price or the purchase price taken as the basis of reporting - two types of retailer margins are calculated: outer margin and inner margin. In substantiation of distribution strategies the inside margin is commonly used.

Distributor margin in absolute values is calculated this way (Figure 1):

MD = P - C, where
 MD = distributor margin (1)
 P = selling price
 C = buying cost

Distribution margin also can be calculated as a percentage this way (Figure 2):

- Calculation of percentage distribution margin:
 - outside -
 - inside -

$$\begin{matrix}
 MB^* \frac{PC}{P} (\%) & MB^* \frac{PC}{C} (\%)
 \end{matrix}$$

(1)

- Rule or principle of equivalence

$$MB^* \frac{ML}{1+MI} = MB^* \frac{ML}{1+MI}$$

The example presented is based on data provided by PLP Group Company located in Braşov. The company distributes automotive tires and batteries through a distribution network covering about 85% of Romanian territory using several types of distribution channels from which I choose for comparison two variants: short circuit, comprising: Importer (PLP Group) by your own service - Consumer and long circuit comprised from Importer (PLP Group) - sales agents - independent shops - Consumer. The model takes into account on one hand, the nature and costs on each circuit, and on the other hand, the structure, the nature of duties and responsibilities that each partner has in the distribution strategy adopted.

It can be seen how, in the analysed long circuit, most of the functions of physical distribution - logistics - are provided by sales agents (en-gross) and, therefore, relative costs are higher, commensurate with the turnover of the producer, also covering the retailer margin. The manufacturer may be content just with the management of sales and with limitation of relations with agents. Instead, fixed costs

Further, based on an economic model, some comparisons are made on the costs of distribution and types of circuits and on the logistical elements of each type of circuit. In Table. 1 is an example of computing in order to compare the two types of distribution circuits - short and long term.

are, in this case, very small for the manufacturer. If short-circuit distribution can be seen, on the contrary, that the fixed costs become preponderant. The manufacturer has to assume this time logistics functions of storage and transport, to provide a network of warehouses and a sales management more important and more laborious. Expenses generated by the management of stock and customer accounting, contact and information functions are also provided by the manufacturer.

In the analyzed company, the turnover on each circuit of distribution is around 550.000 lei, in which case, as may be established using the diagram, longer channel is more effective. Only if the company had a turnover of more than 950.000 lei situation would change, becoming short channel efficiently.

Analysis of this model may delineate a conclusion that small businesses should use strategies based on long distribution circuits, their turnover is in general too small to support investment and fixed costs arising from a short circuit.

The graph of the two cost functions are shown in circuit Diagram 1.

Comparing costs of two distribution circuits

Table 1

	Long distribution circuit: importer – distributors - independent shops - consumers		Short distribution circuit importer through own services - consumers	
	Costs	Explanation	Costs	Explanation
Transport	-	<ul style="list-style-type: none"> I → G : Task of I G → D : Task of D 		<ul style="list-style-type: none"> I → warehouses Task of I warehouses → D: Task of D
	<i>Covering agent margin 15,2 % of producer turnover</i>			
Sorting		<ul style="list-style-type: none"> Task of G and D: full range 	-	<ul style="list-style-type: none"> Task of D risks a less complete range
Stocking	-	<ul style="list-style-type: none"> warehouses: task of G stocks: task of G 	97486	<ul style="list-style-type: none"> 3 service 8 turnovers per year (46 days speed)
Contracts	-	<ul style="list-style-type: none"> clients: task of G risks: task of G 	1.25% of turnover.	<ul style="list-style-type: none"> payment at 45 days
Information	<i>2.2% from turnover</i>	<ul style="list-style-type: none"> requires pressure strategy over G and D 	1.20% of turnover.	<ul style="list-style-type: none"> strategy to absorb
Sales Management	56 414	<ul style="list-style-type: none"> over the task of G a small team 	100.000	<ul style="list-style-type: none"> over the task of I a strong team
Total cost	56 414 + 0,174 (turnover)	• cost is relatively commensurate with the work	197.486 + 0,0245 (turnover)	• the fix costs part is important

In connection with another very important coordinate in substantiation of distribution strategies that is the management issue specific to substantiation of the distribution strategies, the control issues should be stated that involves the evaluation of the results of applying each strategic choice taken. Given that in a distribution circuit are forces that can act and have interests and actions meant to counteract or lessen the intensity of the interests of some of the

companies within the marketing channel the marketing channel to maximize profits detrimental to the economic organization involved. A particularly important role in this case is tracking the concentration, distribution and staggering of promoting efforts and sales insuring with appropriate clauses included in the partnership acts, the client approaching, and contracting system, storage systems, assorting and presentation of products and the development of payments program.

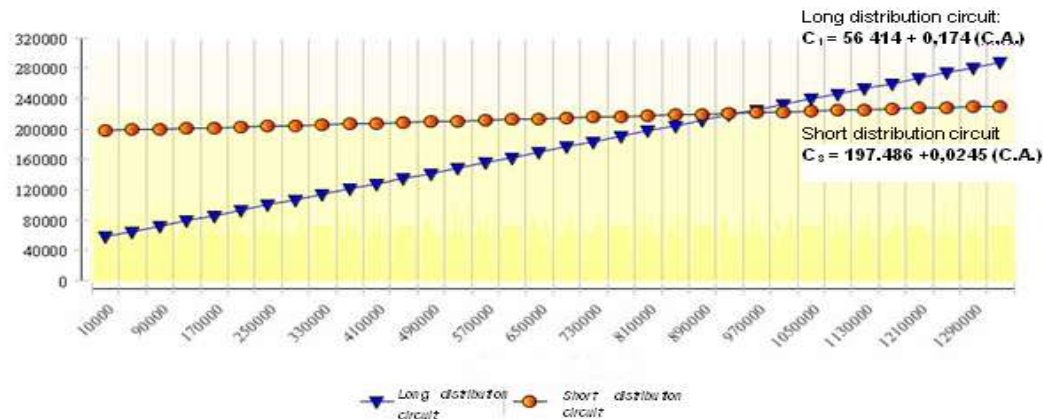


Diagram 1. Comparing the functions of the two distribution circuits
Data were processed and are presented graphically using SanCont system, provided by the company SAN Software of Braşov

The last reviewed criterion, but also a very important one in substantiation of the distribution strategies, is the possibility of adapting to the requirements of the particular circuit. To form a channel, members are obliged, for a certain period of time, to assume a number of mutual obligations. This inevitably leads to decreased ability for the organization to independently react to changes in the market. Therefore, the company should opt for those marketing channels to enable a maximization of the possibilities of control and inspection, as well as own capabilities to quickly adapt the marketing strategy to market conditions and requirements.

The decision concerning the training, the implementation and the development of a vertical distribution system or the one regarding the affiliation to one already formed must consider its advantages and disadvantages and costs. The following research shows how we can draw conclusions that organizing a vertical distribution system attracts, amongst members of channel, in the case where the production volume is large enough, a considerable number of advantages, as

well as restrictions that participants need to obey.

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MANAGEMENT

QUALITY MANAGEMENT OF THE ACCOUNTING SERVICES

Mirela Camelia BABA¹

Abstract: *Often, the accounting services are vital for the success of a business, and their quality is very important, both for the users of accounting information, as well as for the providers of services.*

The present paper highlights the role of the accounting services in the processes of planning, coordination and development of the management policies of the economic entities. There are re-identified a series of factors which are responsible for the quality of the accounting process and for the efficiency of the activity undertaken by the accountants.

Key words: *users of financial-accounting information, quality management, quality costs, accounting information, accounting service.*

1. Introduction

The recent economic development, corroborated with the globalization, have determined an increased need of accounting information, and managers and investors need accurate, credible, pertinent and internationally comparable financial information to ground their decision upon. The trust in an entity entirely depends on the degree the managers perceive and understand the accounting-financial information, on its openness and transparency. The management of an entity ground their decisions on a big volume of accounting data and it is its duty to release them outside the entity, the management bears the responsibility of the production and release of financial-accounting information. As they have immediate access to the accounting information, the managers give a special attention to the way the published information is perceived outside his firm, because this tells the third parties how the institution is managed.

A few considerations about the quality of the accounting services were presented by Johnson, Eric and Walker, Kenton in their book, "Delivering Quality Accounting Services" in 2006. Their article presents steps that the management accounting firms in the U.S. can apply to improve management accounting services. The quality of information in their opinion may be measured by accuracy, completeness, relevance, and timeliness. Therefore the firms can improve management accounting services and achieve a number of benefits, including improved management of the accounting function, more effective allocation of accounting resources, improved communications between providers and users, a higher service quality and customer satisfaction levels. Quality accounting services are those that customers use frequently and consider important in carrying out their work. The result of quality service delivery is a high level of customer satisfaction. Studies such as Peasnell, 1982 and Östermark & Aaltonen, 1995 examined

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a certain type of accounting information (in the form of financial ratios) that are quite sophisticated for the typical investors to reach and to be influenced by Iselin E. R. (1996) states that accounting information affects decision quality through three main variables: uncertainty, information load and data load. Some other qualitative and quantitative aspects regarding the accounting information were presented in specialized literature by Celine Michailesco (2000), Eddy Vaasen (2002), Brigitte Eierle (2008).

2. The Components of the Management of Quality of the Accounting Services

The accounting department is the representative of the financial and economic decisions made in order to ensure the optimal functioning of an economic entity, and the production and communication of the accounting information can be seen as a service. The quality of the accounting services depends on the quality of the proceedings used in the production and release of the accounting information, but also on the quality of the accounting statements and their conformity to reality and the actual laws. A qualitative accounting process implies competent proceedings, methods, working techniques and personnel, because these facts ensure the trust of the users of accounting information. The accounting services must pursue the production of the information that responds to the demands of the various users, otherwise, the trust they grant to the methods that were used and even to the accounting professionals that produced it falters. The role of the accounting department is to offer information necessary to the management of the economic entities and to elaborate the statements on which the decisions are made; that's why the timely information have a special importance for the top managers and for the grounding of the

decision they make in order to exert a corresponding managerial control. An essential component of the quality level is the client's perception, or the user of the accounting information, about the extent to which the service he accesses fulfills his/her demands. Therefore, an economic entity must include among the strategic objectives the increase of the satisfaction level of its customer for the products it offers. In the context of the present economic crisis, the planning and implementation of a personalized system of quality ensurance of the accounting services, of quality management, represents the essential condition for the survival and development of the economic entities. The economic theory says that the value of a commercial good or a service is determined according to the utility, that is the satisfaction it brings to the consumer, and this judgment is applicable to the production and communication of accounting goods. Regardless of the purpose and the means of communication, the satisfaction of the user's needs must be measured and ensured constantly. The service, namely the financial-accounting department, must be able to offer, apart from the chronological recording of the accounting operations, the drawing-up of the financial statements, records, fiscal statements, to provide services of financial and fiscal consulting, assistance when auditing services proceed for periodic checking, solutions to improve the taxes and to reduce them. The accounting quality objectives of the economic entities could be oriented towards the satisfaction of the needs and expectations of the users of the accounting information in what regards: the professional ethics and the abiding by the actual legislation; constant amelioration of the accounting information that is made public, including of the means of communication; the effectiveness of the production and communication of the

accounting information; taking into account the social and environmental requirements. In order to fulfill their objectives, the accounting professionals must respect some fundamental principles, based on: integrity, objectivity, independence, professional competence and good will, confidentiality, professional ethics and professional and technical regulations.

The components of the quality management are: quality planning, quality control, quality accomplishment and quality improvement.

- Quality planning refers to all the processes necessary to determine the firm's main objectives in the field of quality, as well as the resources and means necessary to accomplish them;
- Organizing the quality activities consists of attributing charges and responsibilities to the staff, referring to quality, and settlement of the function ladder;
- Training refers to the processes through which the personnel, the human resources, are motivated to accomplish the objectives that aim to quality;
- Quality control includes the set of the surveillance and quality control activities that are meant to detect deficiencies, prevent them and implement new objectives)

The quality of the accounting process can be regarded as providing for clients inclusive accounting services, accurate accounting information and a reasonable price. The quality of the accounting process can be seen in the availability, for the users, of thorough accounting services which are also accurate and have a reasonable price.

The actions of the economic entities, in order to ameliorate the quality, are undertaken, generally, on three levels:

- On the technical level, the objective of the economic entity must result in the

eradication of the sources for non-quality and of errors;

- On the human level, the know-how, the experience of the staff must be valorized in order to constantly improve the quality and the performance of the production of the accounting information;
- On the organizational plan, the amelioration of the quality can be obtained by a better organization of the accounting process, by its simplification and permanent adjustment.

The quality can refer to the performance of the accounting works and services, corroborated with the time dimension. On the other hand, non-quality in accountancy could indicate: time loads, incorrect information, unsatisfied clients, unqualified staff, the incompetence of the professionals that exert the accounting profession, incomplete financial statements, breaks of the actual legislation. The fundamental problem regarding the organization of an accounting system is connected to the way the accounting information is made up and released. Accounting must record, determine, make stocks, check, provide and communicate a whole range of information, proceeding to the shaping and representation of the transactions through the financial and management accounting.

3. Factors Which Depend on the Quality of the Accounting Information

Quality also means accuracy and convenience of the accounting data, from the moment they are presented to be processed, until they are found in actual financial situations. Quality in accounting depends on various factors, such as:

- *Organization and leadership of accounting in the specific entity.* Quality depends on the ability of the accounting system of the entity to provide professional and of good accounting quality services, as audit, fiscal

consulting, administration and financial consulting;

- *Material and technical endowment of the accounting.* The informatics system must be checked, as the support for the information accounting system (if minimal requirements for accounting programs are accomplished), as well as the conditions of archive registration for the accounting documents, the access to the accounting data. In order to fulfill the demand for quality, an accounting application must respect three essential requests: to correspond to the needs of the beneficiary; to be functional; to be adjustable to the legislation, technical requests. The quality of this program depends upon the track down of errors in accounting and the speed of the providing of the data. The accounting program and accounting system in general must ensure the confidentiality of information;
- *The modality of putting into practice the regulations.* Development of the confidence of the users of accounting information in the final product of accounting is realized in the first place by obeying the norms and the current legislation;
- *Competence and independence of the accounting professionals.* Accounting had always had as main enterprise the activity of professionals well-known for their competence to produce, explore and certify quantified economic data, presented according to the conventional regulations. Accounting professionals can display a positive, but also a negative manner to manifest their creativity. In a positive direction, their creativity in the service of recovering the system errors, derived from strict appliance of the regulations. Such a situation leads to the quality improvement of the information provided to the users. Appliance of

professional regulations is imperative, the reference of the quality control of the accounting services performed by the accounting professionals.

4. Factors that Affect the Quality of the Accounting Information

The errors in application of the accounting principles, the practices of manipulation of the results, the incompatibilities in the exertion of the accounting profession, the legislative instability, inflation are elements which can affect the quality of the accounting information. For instance, the use of the historic cost in order to evaluate goods indicates the real value of the elements of patrimony at the time of their assessment, but further on, there is the possibility that it cannot reflect the reality. On the other hand, the constituting of provisions as an effect of applying the principle of prudence, seen as fiscal deductions has the role to decrease the unfavorable influence of the historic cost about the supra-evaluation of the results. If the provisions are not registered, that can lead to a distorted image of some of the elements of the patrimony, but also to over-evaluated net profits. In accounting, it often happens that the real loss of an entity is bigger than the loss as it appears in the balance sheet, or the real benefit of the company can be higher than the one in the balance sheet. The specialty literature characterizes the politics of manipulation of information presented in the financial statements as 'creative accounting' practices. The 'creative accounting' was defined as a presenting technique of the annual accounts of the companies that allows the display of a new and favorable image of the outcome and the balance sheet. The accountants are able to artificially manipulate the expenses and the income as follows: deliveries of goods and services with the emission of the voucher in the

following closing, the records of the current period for which the invoices were not received are not registered; an exaggerated increase of the depreciations and provisions expenses; the choice of a method of allowance for depreciation which can model the result in favor of the company; delaying the registry of the interests of the financial activity, or from acquisitions or sales in installments; not making the registry of revenues or expenses from/with rents; over-evaluating or under-evaluating the current production. The incompatibility of the exertion of the accounting profession is another factor which could affect the quality of the accounting services. Unfortunately, the book-keeping of some companies (especially of those with a low income figures) is organized and managed by unqualified personnel, who do not have the training and the qualification needed and these facts could affect the quality of the accounting process at a very important level. The accounting profession must be practiced by qualified individuals, who have the specific professional know-how.

5. Indicators for Evaluating the Efficiency of Account's Activity

The complexity of character of the accountants' activities lies in the fact that it is a process undertaken by two categories of persons: the subject of the activity (the issuer, namely the accountant) and the object of the activity (the recipient of information, namely the user). It can be said that the efficiency of the accounting activity is a synergetic effect of individual efficiency of each of the participants, and it consists of: the efficiency of the subject of the activity (the issuer of information), the efficiency of the object of the activity (the recipient of information), the efficiency of the process of emission-reception (the accounting process) and the final efficiency. The issuer's efficiency refers to

the capacity of the accountant to issue real, updated, concrete and complete information. It also includes the professional training, competence, integrity and objectivity of the accountants. The receiver's efficiency refers to the receiver's capacity to appropriate the information transmitted by the issuer, to understand and apply it. The efficiency of the process of emission-reception refers to the production process of the accounting information, to the quality and quantity of the broadcasted information. The final efficiency is more difficult to estimate, because the effects are visible after the accounting information has been used by recipients. It is relatively easy to determine the effort (expenditures allotted for gathering information), but the effects are harder to quantify.

There are many factors that influence the activity of accountants and they can be placed in two categories:

- *Quantifiable factors*: the number and the structure of the employed personnel, especially accountants, financial necessities and availability, needs of informational resources, computers etc.
- *Unquantifiable factors*: management quality, professional know-how of accountants, knowledge of the accounting legislation, the objectivity, competence and integrity of the accountants.

Accountants' results and, implicitly, the efficiency of their work for the company, depend not only on their professional training and competence, but also on the way they manage their time. Accountants must schedule their time in such a manner that allows them to carry on more activities in parallel, such as: gathering, processing and storing of information, and, depending on the context, even the transport of deduction reports and statements where they are needed. Often, they need to allot time for accounting, fiscal and financial consulting the managers of the company

require. In our opinion, the indicators which could measure the efficiency of the accounting activity can be: the quantity of information gathered in a time unit; the quality of the broadcasted information in relation with the total volume of information; added value = meeting of requirements in relation with the cost of information; the result of the decisions substantiated on the accounting information; the percent of accountants among the employees of the company; the ratio between the obtained results and the production efforts.

6. The Value of Accounting Information and the Quality Decision

The value of an item of information depends upon the impact it has over the

future decisions, ensuing the increased subjectivity of its explication and its use. The value of information can be defined as the margin between the net profits generated by choice of decision after information is obtained and the net profits obtained by taking the same decision inconsequential of the information. The net value of the information is, than, the subtraction between the gross value and the cost of information. To be useful in the process of decision-taking, the accounting information must correspond with requirements for quality, the most important being: relevance, reliability, comparability and intelligibility.

The value of accounting information may be counted considering its main characteristics and its cost [5]:

$$V_i = K \left[\frac{1}{F} \sum_{n=1}^F f(A, T, Y, n) - g(P, Y) \right] - h(A, F, T),$$

Considering:

V_i = Information value i ;

K = the benefit obtained from correct decision;

F = the period of time in which the information is used;

n = the number of periods covered by the time F ;

A = the information accuracy;

T = the necessary time to obtain the information;

Y = the number of the decision taken in "n" period;

P = the probability to take correct decisions without having this information.

The user only is in the position to approve the information by using it properly and efficiently. The accounting information helps the user to take the right decision in his activity, and the information depends both on its characteristics and on other external factors. In order that the information to be utilized by an economic entity, it must fulfill the following conditions: to give a fast response to the modification of the conditions of the competition (in this way the new opportunities can be exploited faster and the weaknesses can be

ameliorated), to increase the efficiency and the internal productivity of the company, increasing the managers' productivity (this means that the coordination of the functional elements of the entity are very good); to improve creativity and productivity of the individual and group decision making factors of the organization (this means an improvement of the tools for gathering real and updated information, an improvement of the analysis of information and of the quality of the decision and release, assistance and survey of the implementation of the actions and

decisions of the management). The role of the accounting department is to provide the management of an entity with the necessary information and to draw-up statements for the substantiation of their decisions.

The assessment of costs and benefits is the result of a professional judgment. One cannot establish accurately the benefits determined by accounting information. For lack of direct methods of assessment of the benefits the accounting information brings, the focus is transferred on costs. Many types of costs should be taken into account: direct costs of production and publishing the information, direct costs of alternative sources of information, the cost of interpretation and assessment of information, the cost the user (investor) should support if he would have produce the information by himself/herself, the indirect costs (for example the side effects of publishing information about the activity of the firm). Like other units, the outsourcing units register general expenses. The general outsourcing costs are put together with the costs destined for the labor force when deducing the general cost of the outsourcing. The costs implied by the production of accounting information could also be structured as follows: costs for gathering of information, costs for processing the accounting information, costs for storing the accounting information, costs for communicating the accounting information.

7. Opinions Regarding the Quality of Accounting Information

The objective of this research aims, inter alias, to find some answers to the following questions: What is the role of the accounting in grounding managerial decisions? What can the accounting offer to managers and how do they see the offer of accounting information? Is the accounting information useful for the analysis and decisions made by managers? Is the way managers perceive and use the

accounting information relevant? What tools do the managers use frequently? Is it possible to improve the quality of the accounting process taking into account the managers' attitudes and opinions towards it? Is the accounting information credible for managers?. Synthesizing, the following facts can be inferred from the applicative study: the managers turn their attention especially towards non-standardized situations and reports or statements, but which are fit for the nature of their attributions and activity; they prefer the simplified reports, which use a more accessible language and an adequate technology for the managerial knowledge. The managers propose an accounting system which is easier to follow and check, where the producers of financial-accounting information know exactly which their attributions are as well as the problems they have to confront, thus helping the manager to economize time and money and directs him to investments that improve the economic and financial performances of their company. The financial-accounting information, in the managers' opinion, must be brought up-to-date, help the increase of the efficiency and performance of the firm, improve the managers' productivity and creativity.

8. Conclusions

To conclude, the accounting information can play a direct part in the lowering of the incertitude which the user of the accounting information can have at a certain moment, it has a higher degree of credibility comparable with other sources of information, are understandable to all the users that have knowledge in the financial-accounting field, and the costs for it are lower than for the other sources of information. The image an economic entity acquires through the financial statements and the quality of the information depend on the professionalism and the objectivity of the producers of the accounting information, but also on the correct perception of the users of information of

the message transmitted by means of the accounts, on their personal quality and understanding. The economic entities, through accounting, must provide financial information that allows the investors' access to the accounting information, and the information must be transparent and intelligible, comparable but also relevant. In order to ensure the quality of the financial statement, it should be based, all over the world, on transparent, comparable, timely accessible financial information, and the reporting should be drawn up on the bases of generally accepted and understood in the financial world. The adopting of the international accounting regulations in Romania has led to the increase of the transparency and comparability of the financial information offered by the financial statements, followed by an increased trust of the investors in the financial statements. The process of normalization and harmonization of the accounting allows the economic entities to relate to similar entities on the world level, which means that there must be a single means for communication, and all these lead to an increased credibility and improvement of the financial-accounting information. In order to conclude that the accounting services are efficient, the following aspects must be considered: the capacity of the accounting service to produce regulated accounting information and to adjust to the and to adjust to the changes imposed by the modification of the accounting norms; its capacity to evolve and to respond the demands for information placed by the internal and external users, the involvement of the accounting service in the production, re-financing and management decisions of the entity, the capacity of the accounting service to reduce the uncertainties that result from the relations of the entity with the exterior environment, formalization of the released

information and the continuity of the release of information.

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CHALLENGES AND OPPORTUNITIES FACING BRAND MANAGEMENT IN THE LODGING INDUSTRY

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Abstract: Brands are at the heart of marketing and business strategy. If a company's offer is perceived to be the same as those of the competitors, then consumers will be indifferent and will choose the cheapest or most accessible. The purpose of marketing is to create a preference for the company's brand. If customers perceive one brand as superior, they will prefer it and pay more for it. Successful brands create wealth by attracting and retaining customers. When a company creates this type of customer preference and loyalty, it can build a strong market share, maintain good price levels and generate strong cash flows. The notion that a hotel's brand contributes significantly to the property's market value is supported by an analysis of nearly eleven hundred hotel transactions over the past fifteen years.

Key words: brand, guest satisfaction, hotel valuation, brand management, strategy.

1. Introduction

Today's lodging guests are seeking consistency and quality at the right price. Consequently, lodging operators have turned their attention to guest satisfaction and branding because brand name operates as a "shorthand" for quality by giving the guest important information about the product/service sight unseen. Accordingly, hotel executives recognize brand quality as an important company asset and as a potential source of strategic advantage. The value of a brand is based on the awareness of the brand, its quality perception, and overall customer satisfaction. Satisfied customers tend to buy more, be less price conscious, and to generate positive word-of-mouth, thus contributing to bottom-line profit [1]. Due to increased attention to a customer focus,

brand managers use satisfaction as a measure of operational success of their overall branding strategies.

2. Brands' Added Values

Added values – the subjective beliefs of customers - are at the heart of building successful brands. That such beliefs exist has been demonstrated on countless occasions. In test where customers are presented with competitive products in an unbranded form, there is often no clear preference. But if a top brand name such as Coca-Cola is attached, a dramatic switch in preferences invariably occurs. Not only will people prefer the strong brand name, but they will actually be willing to pay a higher price for it [2].

Nor the emotional impact of the brand limited to consumer goods. A classic study

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by Professor T. Levitt at the Harvard Business School clearly demonstrated that the brand image has a significant effect on industrial buying decisions. He found that the more powerful the brand name, the greater the chance of the industrial buyer giving the company a hearing for a new product, and the greater the likelihood of its early adoption.

Consumers often base their hotel-stay decisions on their perception of a specific hotel's brand name. The United States now has over 200 hotel brands competing for business, more than in any other product category. Many of these brands are extensions of existing brand names.

Brand extension is the practice of introducing a new brand (differentiated by market segment) using a well-established brand name as leverage. One of the earliest examples of brand extension in the hospitality industry occurred in 1981, when Quality Hotels (now Choice Hotels) diversified its line into product tiers, including Comfort Inns and Quality Royale (now Clarion) [3]. The subsequent burst of brand extensions included Holiday Inn's introduction of Holiday Inn Express and Holiday Inn SunSpree Resorts in 1991, the upscale Holiday Inn Crowne Plaza in 1983, followed by Holiday Inn Select in 1994, and Staybridge Suites by Holiday Inn in 1998. The above examples are just some of the many hotel companies that have tried to capitalize on their brands' goodwill through brand extension. Most major hotel companies have at least one brand extension, implying that hotel chains consider the strategy to be successful.

A brand-extension strategy allows firms to penetrate a variety of market segments with differentiated products that carry a single, well-established brand name. Hotel firms see several advantages to brand extensions, including quicker acceptance of new products by consumers, economies of scale in marketing support expenditures, lower

risk associated with introduction of new products, and retention of guests. There are disadvantages in using brand extensions as well, however, including managerial complexities (e.g., establishing corporate structure to support multiple brands and determining the criteria for monitoring the performance of multiple operational units), marketing issues (e.g., positioning the brand and achieving clarity in the associated marketing message and avoiding cannibalization of one brand by another), and challenges in customer-relationship management (e.g., establishing and maintaining brand-specific customer-service quality standards) [4].

3. The Role of Brand Affiliation in Hotel Market Value

A hotel property's brand identification is clearly a large factor in its market value, but measuring the brand's contribution to a property's market value has so far been as much "art" as "science." A number of financial indicators are used to determine a property's value. Net operating income (NOI), average daily rate (ADR), occupancy rate, and even number of rooms have proven to be significant predictors of a hotel's market value [5].

Not only is it generally recognized that brands create value for both consumers and companies, but consumers use brands as cues to infer certain product attributes, such as quality. Because loyal customers are generally less price-sensitive, more willing to purchase more, and generate positive word of mouth, corporate management has realized that brand names are among the most important assets of a company [6]. A study conducted by O'Neill, J. W., and Xiao, Q., examined the brand effect on hotel market value from an investor-owner perspective. The fundamental question was: What is the role of brands in determining hotels' market values? In particular, are there value

premiums for hotel properties affiliated with certain brands over those affiliated with other brands? Based on a data set consisting of more than one thousand actual hotel-sale transactions, the study explored whether a particular hotel brand contributes more or less to the value of hotels flying that flag, while controlling for the most recognized value predictors, namely, NOI, ADR, occupancy rate, and number of guest rooms. By revealing brands' effects on hotel values, the authors expected to assist current and potential hotel owners, investors, lenders, and other analysts, as well as corporate brand management, with their assessment of the power of brands in terms of hotel market values.

The value of a brand chiefly resides in the minds of customers and is based primarily on customers' brand awareness, their perceptions of its quality, and their brand loyalty. After customers become loyal to a brand, the brand owner can capitalize on the brand's value through price premiums, decreased price elasticity, increased market share, and more rapid brand expansion. Finally, companies with successful brands benefit in the financial marketplace by improving shareholders' value.

The recognized goal of hotel branding is to provide added value to both guests and hotel companies by building brand loyalty. It was reported that 85 percent of business travelers and 76 percent of leisure travelers preferred branded hotels over independent properties. One reason for this finding is that hotel guests rely on brand names to reduce the risks associated with staying at an otherwise unknown property [7]. In that regard, strong brands enable hotel chains to be part of and to differentiate themselves in the mind-set of customers.

The study stated the fact that brands collectively have a significant effect on hotel values. More specifically, hotel

brands affect market values of four hotel types, namely, midscale without F&B, midscale with F&B, upscale, and upper upscale. At the same time, individual brands had greater or lesser effects on hotel valuations.

For hotel owners, whose goal is to maximize the market value of their asset, recognizing the role of brand name in hotel market value is beneficial for positioning and flagging decisions. Specifically, owners of midscale and upscale hotels should be cognizant of the value their chosen hotel brands bring to their properties. For hotel companies' brand-management teams, effectively assessing brands' effects on hotel market values can strengthen the overall value of the brands and possibly improve the brands' franchise sales. Such rational analysis can signal weaknesses and assist with the development of reimagining, retrenchment, or remedial brand strategies, when necessary [8].

4. The Relationship between Guest Satisfaction, Room Revenue and Hotel Branding Strategy

From a corporate strategy viewpoint, well-managed brands tend to gain increasing market share. Yet, previous research linking service quality with market share in the hospitality industry shows mixed results. There are two divergent views on the effect of brand growth on customers' quality perceptions. First, the market signaling theory suggests that consumers interpret a high market share as a signal of high quality, thus resulting in increased future demand. Consequently, it is not surprising that market share leaders, including those in the lodging industry, tend to use their share as a focal point in their advertising messages (e.g., Best Western's advertising campaign touting that they are the largest hotel chain in the world).

The second stream of thought on brand management proposes that there is a negative relationship between market share and perceived quality. Some large-scale satisfaction studies show that satisfaction decreases with an increase in market share. As a hospitality industry example, McDonald's executives have acknowledged that the company's growth has come at a high cost in terms of quality[9].

In this study, guest satisfaction had a positive influence on both occupancy rate and ADR (average daily rate). The results further indicated that brands with higher guest satisfaction levels seem to achieve not only greater revenues per guest room but also achieve higher growth rates in room revenues than brands with lower satisfaction. This finding was consistent with branding literature, which suggests that customers are willing to pay a premium price for their preferred brand. Protecting reputation for satisfaction at a brand level has become a key issue both in terms of customer perceptions and franchisee willingness to sign and/or stay with a particular hotel brand. Because today's hotel franchisees are as quick to change their brand loyalty, it may be more important than ever for hotel brand executives to maintain consistent brand quality (i.e., guest satisfaction). Brand size was positively linked to occupancy percentage, thus suggesting that lodging customers might use brand size as a quality cue. Thus, brands with many hotels and/or large hotels were considered as relatively larger brands. Regardless of the merits of the signaling theory, hotel company executives need to be prudent when choosing their growth strategies.

Growth via franchising might have an adverse effect on quality. In the study, the percentage of franchised units within the brand was negatively correlated with both guest satisfaction and occupancy. As hotel

brand executives continue to focus their growth strategies to a greater extent on franchising and brand management rather than actual property management, the issue of guest satisfaction could become an increasingly important factor in determining the ultimate revenue success of hotel brands. One of the reasons that brands with a greater percentage of franchised properties might be achieving lower levels of guest satisfaction, and ultimately lower occupancy levels, is that as hotels age, they tend to suffer from functional obsolescence as their designs experience a decrease in utility over time.

When an older hotel suffers from functional obsolescence, capital investments will no longer result in an acceptable return to the owner. Hotel owners in such a position are financially demotivated from employing capital to improve the physical plant, regardless of brand standards. Franchisors must make strategic decisions regarding addressing the balancing of the guest need for service versus the brand need for franchise fee revenues.

As this study indicates, this balancing act is a crucial one for hotel franchisors. Although the generation of franchise fees is a vital short-term goal for any franchisor, guest service has a long-term effect on the overall health of hotel brands, at least in terms of future brand-occupancy levels. Consequently, the aggressiveness with which brand management disciplines and/or eliminates franchisees who are providing relatively poor guest service may have serious implications regarding not only the future reputation, but also the actual future performance of the entire brand.

Furthermore, the research found that brands with higher levels of guest satisfaction achieve not only higher average daily rates, but that these brands achieve significantly greater percentage

increases in their average daily rates over time, as well. Although hotel guest satisfaction certainly comes with economic costs to operators, the important message to hotel brand managers is that there exists empirical evidence that guest satisfaction offers clear economic rewards, as well[10].

5. The Hotel's Market Positioning and Competitive Market Efficiency

A hotel's business strategy can take two basic forms - a market emphasis or a cost emphasis. Of course, hotels can pursue a hybrid strategy that blends the strengths of both a market emphasis and a cost emphasis. A critical issue facing hotels following a market emphasis is to differentiate themselves from their competitors. Thus, finding a unique competitive position for the hotel is a key pursuit of market-focused hotels. A critical issue facing hotels that emphasize costs is to find ways to improve their productivity. In other words, these hotels attempt to increase their economic efficiency by lowering their costs while maintaining or increasing their sales revenues.

Economic-efficiency research emphasizes improving the ratio of outputs to inputs, whereas market positioning research focuses on customer perceptions of the hotel's market offering relative to the competition. A fruitful direction for hotel research is to integrate positioning with efficiency. It is interesting to study the efficiency with which different hotel brands are able to generate customer satisfaction and perceptions of value.

Market positioning refers to the location of a brand relative to its competitors in the customer's mind. A hotel's positioning, for example, can be based on specific features or attributes (e.g., full food and beverage service vs. complementary continental breakfast only), particular benefits (e.g., quiet comfort vs. airport convenience), the specific usage category (e.g., overnight vs.

extended stay), or the particular user category (e.g., pleasure vs. business travelers), a hotel's market position is based on customer perceptions.

Competitive market efficiency refers to how well a firm (a hotel, in our case), relative to its competitors, uses its available resources to produce outcomes desired by its customers. Firms that are able to generate greater customer outcomes with fewer resources than their competitors are more likely to dominate their markets. This is what is meant by competitive market efficiency.

Clearly, competitive market efficiency is one way in which firms can position themselves in their customers' minds. Firms can attempt to provide more outcomes to their customers using fewer resources.

Two key customer outcomes, inextricably linked to each other, are customer value and customer satisfaction.

Customer Value. Value to the consumer is the benefit perceived by the consumer.

Customer Satisfaction. Another outcome that a hotel firm can generate is customer satisfaction and consists of the general feelings that a consumer has developed about a product or service after its purchase. Consumers are more likely to use attributes in making postpurchase evaluations than they are in making overall product evaluations. Thus, an attribute-level analysis is more diagnostic in determining the antecedents of consumer satisfaction and/or dissatisfaction.

Competitive Market Efficiency. The competitive market efficiency can be defined as efficient if it provides the highest value per dollar spent for that set of characteristics, or, equivalently, if it is the cheapest brand that can be produced and sold for that set of characteristics. Any brand that fails to satisfy this criterion may be regarded as inefficient.

Inefficient brands can exist for several reasons. One key reason is a lack of information - a lack of information about what brands are available and what the relevant attributes are. Another key reason for inefficient brands is that efficient brands may not exist. This occurs where consumers cannot purchase mixtures of brands but rather must buy discrete brands that are near to, but not at, the consumers' optimal choice.

Studies in this field did show how DEA (Data Envelopment Analysis) could be used to assess a hotel brand's competitive market efficiency [11]. A hotel brand's market efficiency as the brand's level of outputs (measured in terms of customer satisfaction and customer value) relative to its inputs (i.e., the hotel's attributes including price). The hotel brand's competitive market efficiency benchmarks its market efficiency against those of its competitors. The results of these studies show that both of the luxury hotels, upscale hotel brands, intermediate hotels, and parsimonious hotels are DEA market efficient. In other words, no other hotels generate greater outputs for the inputs used by those DEA market-efficient hotels. The dual solution to the primal DEA formulation provided insights as to how less efficient hotels can improve their competitive positions in terms of customer satisfaction and value. Hotel firms can improve their competitive market positioning by offering their guests more and charging them less.

The DEA findings show that, compared with their competitors, some firms use their hotel attributes more efficiently to generate customer satisfaction and perceptions of value. These are the DEA-efficient hotels. Managers of hotel brands that are less efficient can improve their competitive market efficiency by mimicking their more efficient competitors. Generally, this means hiring

and training better quality front desk staffs, placing a greater emphasis on general maintenance and cleanliness, and eliminating problems before they become complaints. It also means lowering prices to more competitive levels. These are short-term adjustments that a hotel brand can make to become more DEA market efficient.

Longer term improvements involve adjusting the numbers of hotels and sizes of the hotels in the chain. Some firms are advised to expand the number of properties in the chain, whereas others are advised to shrink the size of the chain. Some hotel brands can become DEA market efficient by operating bigger hotels (i.e., more rooms per hotel), whereas others are advised to limit their hotels' scale. Unless these relatively high-priced and market inefficient brands improve their competitive positioning, they are likely to experience declining sales growth and reduced shares of the market. Thus, it is important for hotel managers to track their competitive market efficiency to ensure that they are offering the requisite services and amenities at the appropriate price so as to generate competitive levels of customer satisfaction and perceptions of value.

6. Brands and Romanian Hotels

In 2007 the total amount of Romanian hotels gathered 1075 units, out of which 10 units (0,9%) hotels of 5 stars, 8,2% hotels classified at 4 stars, 31,6% units of 3 stars, 41,5% of 2 stars, 16% hotels classified at 1 star, and the rest of 1,8% units are not classified [12]. One of the ways to improve hotel's standards, and therefore, to attract more foreign tourists, is the affiliation to the international hotel chains, which, among other very important assets, promote notorious brands. Some of the Romanian hotel managers have such a

vision. But the percentage of the Romanian hotels members of hotel chains is rather critical. These days, only 1% of the Romanian hotels are members of such important hospitality organizations, while the European average is 25%, and in the USA, the percentage of membership grows to 75% [13]. Of course, we can appreciate that Romania isn't a target market for these international hotel chains, but, as far as we consider, the biggest problem is that the Romanian managers are not interested in affiliation. Did they know something about big hotel brands and the positive results related to them? Are they willing to offer hospitality services at comparable standards with the hotels which promote notorious brands? Well, some of them value their independence more than anything else. But, in these critical moments, especially for hotels' activities, would it be enough?

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R&D ACTIVITY AS A SOURCE OF COMPETITIVENESS. ROMANIA'S STATUS

Cristina DRUMEA¹

Abstract: *There are multiple sources of competitive advantage for companies and, by extension to the national economy, more or less applicable depending on the nature of their activity, as well as on the sector as on the costs of their implementation. In the present paper, we intend to explore Romania's position in terms of investments in Research and Development (R&D) activity, both in the corporate and the public sector, as compared to the other new member states and in comparison with the European average. We will then compare further the EU state's position in the global economy, from the same angle as in investment in R&D for future returns in a global competition.*

Key words: *R&D, performance indicators, R&D intensity, competitive advantage.*

1. Introduction

One of the most beneficial in terms of duration of the competitive advantage thus created, and as an expression of the overall progress of society is the advantage derived from the innovation process. This comes evidently with costs and investments in the Research and Development (R&D) activity, at the corporate level.

At the rate supposed by the above mentioned activity, budgeting such costs in the company means implementing a strategy (therefore an entire process) that supports innovation and seeks competitive advantage through research.

Aside from the private sector, there are the public policies regarding the research, as one of the components of the national resource for a competitive economy.

The magnitude of these expenditures at the national level implies public outflow and joined efforts put into the R&D activity and shows the rank of each state in comparison with similar economies. We intend to present the evolution of the R&D activity and its consequences in terms of competitiveness, going from the big picture to the smaller one, from the global competition (and the titans at global level) to the EU level, the new member states and Romania's rank in this classification.

We will make a departing point from the statement on one of the rapporteurs (Montalvo, 2007) of the EU Joint Research Centre: "as R&D and innovation become more critical for the competitiveness of Europe in the coming decades, the need for better monitoring becomes more urgent in terms of strategy, policy analysis and design".

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2. Measuring the R&D Activity

We find that there are difficulties in measuring the R&D activity, both in completion and in the possible impact on the performance indicators.

An accurate evaluation of R&D activity and of the policies promoting R&D requires series of reliable data, issued from a valid measurement. There are a few limitations to which we would like to draw attention, both in the data gathering process and in data comparability. Such limitations occur generally from matters such as lack of clarity of the nature of R&D in relation to the competitive strategies of companies, also from the

different interpretation of R&D across firms and national authorities and the lack of significant example and standardization. Another limitation factor is the cost itself of data gathering and the sustainment of the infrastructures that collect data over decades in order to enable longitudinal studies.

3. R&D Activity Data. The Broad Picture

Looking at the global level, we find the following results and trends of the R&D activity at a corporate echelon, as shown in Figure 1.

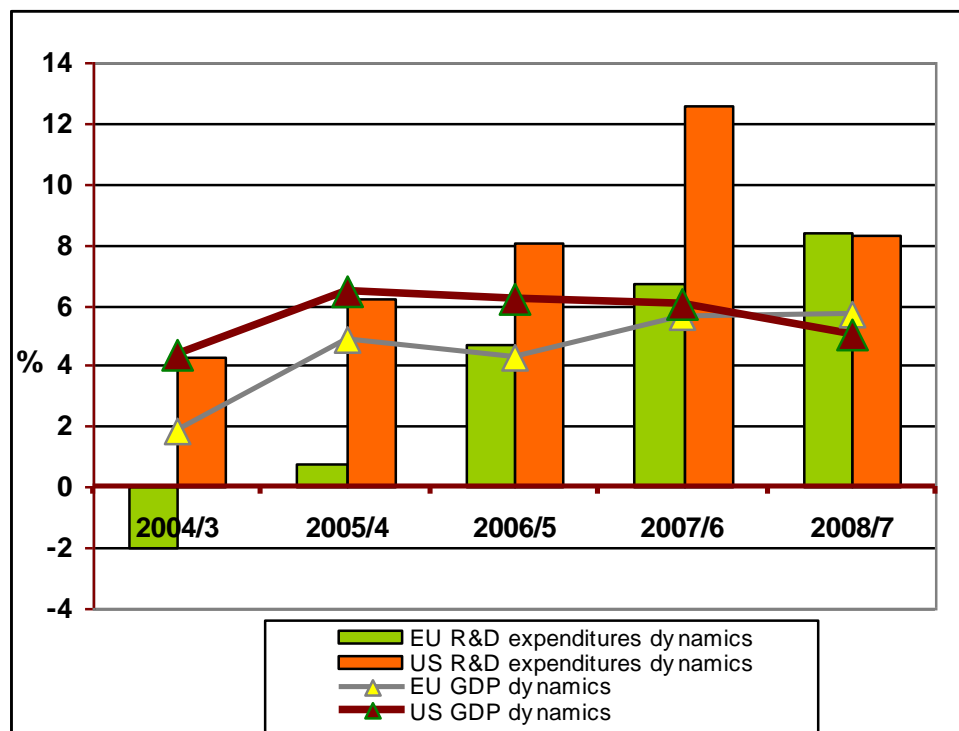


Fig 1 R&D expenditures and GDP dynamics in EU and US

We find that after years in which the increase of R&D investment made by the EU companies fell behind US companies, the 2008 Scoreboard illustrates that the

R&D investment growth of EU companies has been higher than that of US companies. It also surpasses the one of Japanese companies for the third year along. Also,

the statistics show that this is the fifth year running in which the growth rate by EU companies has been higher than the previous year of observation (note: figures are nominal and expressed in Euros with all foreign currencies having been converted at the exchange rate prevailing on 31 December 2007, which slightly affects comparability through the exchange rate differences between the two currencies throughout the observation period)

The source of the aggregated data is the 2008 EU Industrial R&D Investment Report [1], issued by the European Joint Research Centre and Institute for Prospective Technological Studies, which also presents information on the top 1000 EU companies and 1000 non-EU companies investing the largest amounts in R&D. A prime conclusion to be drawn from the statistical observation is that all companies taken into consideration increased their R&D investments by 9% in 2008 as compared to 2007, weighed against 10% in past year's Scoreboard and 7% in the year before.

4. R&D in the EU New Member States

Generally, the examined data suggests that the existing increase in the new member states seems to refer mainly to succeeding structural changes, emerging sectors, increase of the solvable demand and also to a progressively more efficient allotment of production and manufacturing factors rather than to a speed-up in terms of R&D activity and getting nearer the technological borderline of the EU.

Looking at the data, we see that even if the investment in R&D may currently

appear to be only an insignificant source of economic development in the new member states, we consider that in the long run and judging by the experience of the developed states, the importance of this particular activity as a factor of growth is supposed to intensify.

Given the obvious distance between the new member states and the technological borderline, as well as the gap in terms of R&D intensity (see Barcelona target, as in increasing general expenditure on R&D to 3% of GDP within the European Union) compared to the remainder of the EU, political efforts should strive to promote easy access to funds and knowledge created. Also, a more refined plan for improving the existing R&D intervention should increase the innovation capacities systematically.

A valid policy in insuring the gap filling between the new member states and the EU borderline should include studying the private R&D patterns and trends in the R&D activities and consequences, as well as the evaluation and comparison of R&D performance in some selected sectors in order to identify the good practices in this respect.

Figure 2 shows the total R&D intensity in 2005, the main changes between 2000 and 2005, as well as the major (%) sources of funds for R&D expenditure per country in 2005. The image as presented by Report [3] is varied. In general, we notice large disparities within the EU-15 and the newly joined.

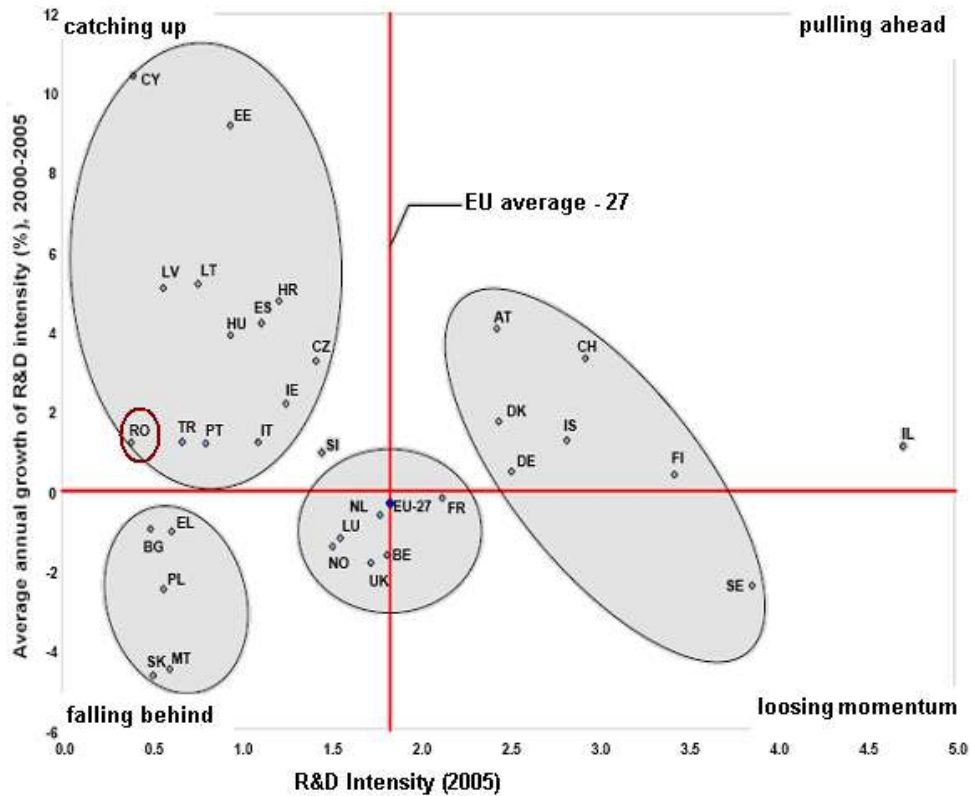


Fig. 2 R&D intensity in the EU between 2000 and 2005 (source: [3])

All the new member states can be constantly found below the average of EU-27 R&D intensity (1.84% GERD - Gross Expenditure on R&D as % of GDP in 2005); the report states the Czech Republic as the highest (1.42%) and merely 0.39% in Romania. As a corollary of these evolutions, the technological output of R&D activities, which is the main indicator of performance (approximated for example by the EPO –European Patent Office as number of patent applications per capita) the same picture comes forward: all new member states are below the EU-27 average (2003, EUROSTAT).

The same report [3] shows that the member states can be gathered in four categories: catching up, falling further behind, losing momentum, and pulling further ahead. As an apparent paradox, the new member states can be found in different parts of the graph, meaning that there is no common pattern in terms of R&D trajectories aside from the fact that, as stated before, the R&D intensity is low for all new members.

The report comments also on the sources of the R&D expenditures per sector, saying that the government sector still accounts for a very large share of the entire R&D funding. In other words, it would seem that

the pre-accession situation has not changed significantly and that R&D sectors are dominated by the state sector. We can contradict this statement by analyzing the situation of the Romanian R&D dynamics and sources of expenditure.

5. Evolution of R&D in Romania

In order to achieve that we have used as a data source statistical Reports issued by the Romanian institute (INSSE) in 2007 (Table 1), which show indeed constant increases in terms of R&D expenditures starting 2000. We see that the expenditures rise in total by 26.8% in 2001 as compared

to the previous year, up to 52.9% in 2006 as compared to 2005.

However, from Table 1 we can easily depict that the business sector is largely exceeding government expenditure in R&D all along the frame data, from 3.49 times in 2000 decreasingly to 1.43 in 2005 and 1.49 in 2006.

The most important increase in R&D expenditure (Figure 4) can be found in the Fundamental Research, 106.3% higher in 2006 as compared to the previous year, this sector amounting in 2006 to 38.8% out of the total yearly expenditure.

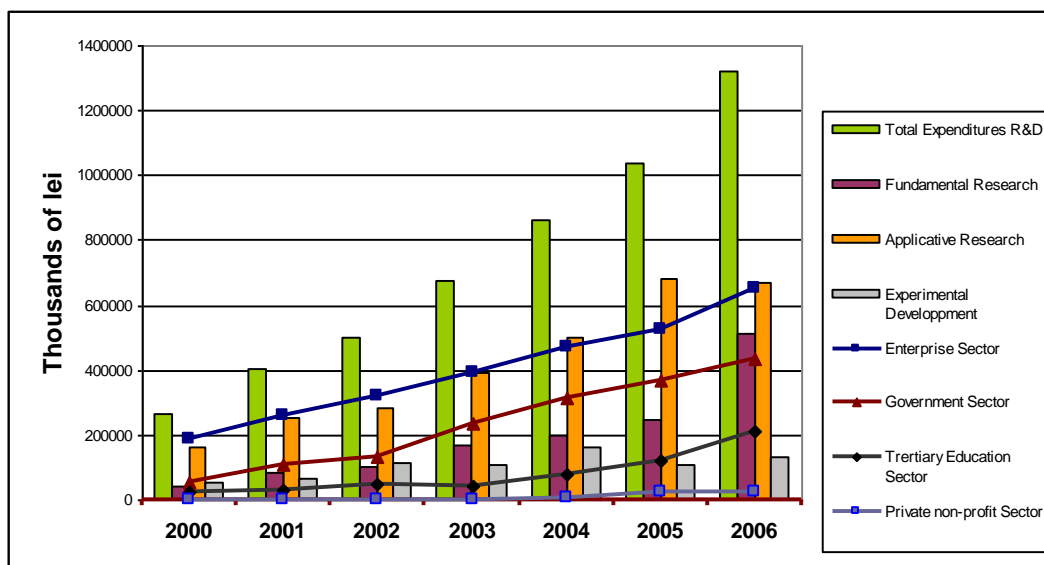


Fig. 3 Current expenditures in R&D activity, by execution sector and type of research (source INSSE Romania)

The Government sector proposes a significant dynamics in 2001 as per the previous year, with an increase of 105.16%, unattained further (75.16% in 2003 and only 18.16% in 2006 as compared to 2005).

In terms of percentage of the R&D expenditure in the GDP, we find a significant gap between Romania and the EU-15 and quite far from the Barcelona target.

Table 1

	2000	2001	2002	2003	2004	2005	2006
Fundamental Research	45083	83644	103213	170755	200083	248578	512842
Applicative Research	163622	252400	281282	391634	499687	680300	672793
Experimental Development	56063	68797	114550	110822	161486	111489	133612
TOTAL, of which, per sector	264768	404841	499045	673211	861256	1040367	1319247
Enterprise Sector	187521	262314	317213	394137	470284	525019	649238
Government Sector	53627	110024	134061	234820	310930	368150	435009
Tertiary Education Sector	23620	32503	47771	42310	76146	120751	212373
Private (non-profit) Sector	0	0	0	1944	3896	26447	22627

However, Romania's trend in respect of the R&D expenditures, as a percentage of the GDP (Figure 4) shows an almost constant increase of the total expenditures for the R&D area, from 0.37% in 2000 up to 0.45% of the GDP in 2006.

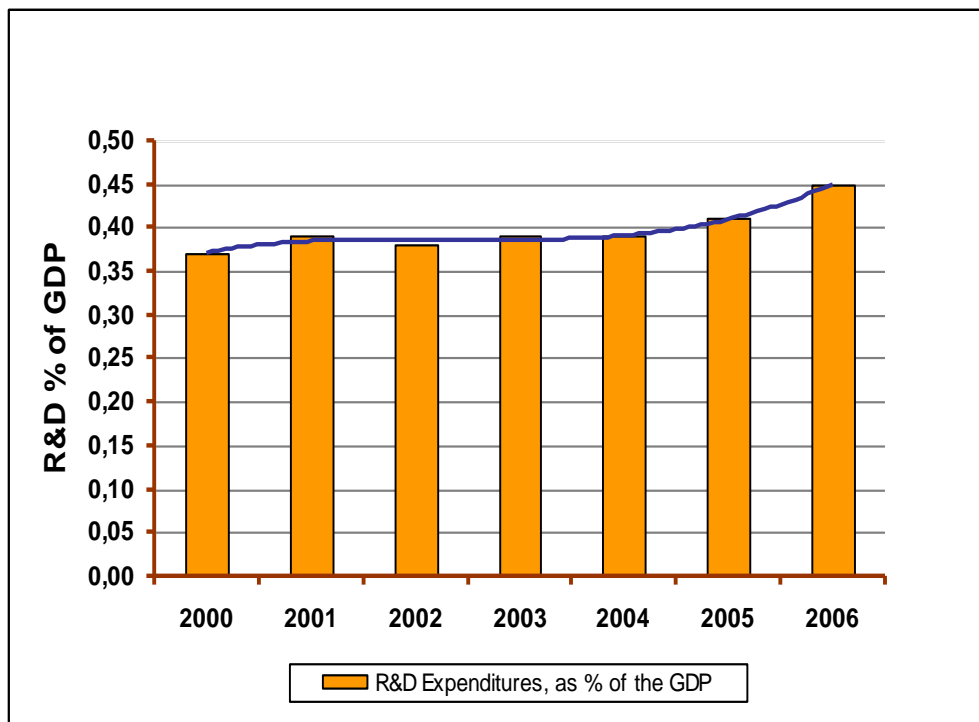


Fig. 4 R&D expenditures, as % of GDP in Romania (source INSSE)

As for the net revenues claimable from the innovation process, we find an ascendant trend of the indicator (Figure 5), showing an increase of 70.9% of the

revenues obtained through innovation in total revenues in 2006.

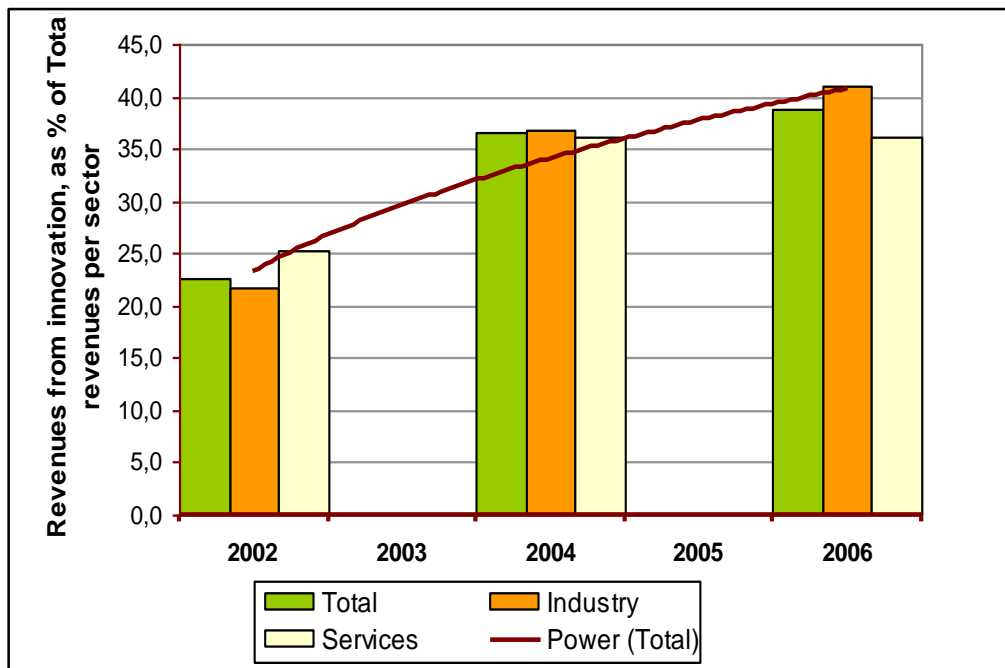


Fig. 5 Revenues from innovation as % of total revenues per sectors (source INSSE)

Similar patterns are followed by the main sectors, showing an increase of 88.42% for the industry in 2006 as compared to 2004 and 43.10% for the services in the same period.

6. Conclusion

Back to the place of the Government's expenditures in the R&D activities as compared to the business' impact in the same area, we tend to agree with the fact that the latter is more inclined to become the locomotive of development and convergence of the new member states to the common policy regarding innovation and research. Also, in order to achieve a more rapid alignment of the R&D potential and implicit competitiveness as compared

to the EU average, Romania should intensify its efforts both on the government side and in the private sector; the latter can auspiciously be amplified by competition and future returns, while the first one can only be accomplished by joint effort and political will.

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THE IMPERATIVE OF ENTERPRISE RISK MANAGEMENT IN THE VALUE-CREATING PROCESS

Melinda KEUL¹

Abstract: *A growing emphasis on risk assessment has marked the past 20 years of financial theory and practice and risk management has emerged as an independent research area. The present study focuses on enterprise risk management strategies which, in contrast to portfolio risk management, require different ways of thinking and different tools to use. With an understanding of risks and their consequences, firms can develop a strategic risk management strategy and exploit risks for higher returns rather than hedging.*

Key words: *Risk assessment, Hedging, Firm's Value, Discounted Cash-Flows.*

1. Introduction

Enterprise Risk Management is a relatively new and quickly developing term that is considered as the ultimate approach to risk management.

Risk management has to take into consideration two aspects: the trade-off between risk and return, and the link between risk and innovation, as new products and services have been developed to both hedge against and exploit risk [Damodaran, 2007]. The link between risk and return is most perceptible when an investment opportunity is concerned. Financial theory, as well as common sense, shows that investments that are riskier need to generate higher return to compensate for risk exposure. In the innovation process, it is important to strike a balance between inventiveness, on the one hand, and prudence on the other. Every time a new product is launched, a new production process is implemented, new markets or sources of supply are

explored; the success of these endeavours depends on the capacity of these innovations to be absorbed by the industry where the firm operates.

Risk management supposes, first of all, a measurement of the risks. Hence, risk management begins with risk assessment.

2. Risk and Value

In common valuation, two established approaches are used: the discounted cash-flow valuation and the relative valuation, which estimates the firm's value by examining the way the market prices firms with similar characteristics.

Discounted cash-flow valuation models consider the firm's value as the present value of future expected cash-flows that the company can generate.

$$VF = \sum_{t=1}^{\infty} \frac{EFCF_t}{(1 + \text{Cost of Capital})^t}$$

where,
VF- Value of the Firm

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EFCF - Expected Free Cash-Flows Generated by the Firm's Activity. It can be calculated as the difference between After-Tax Operating Income and Reinvestment needs.

Cost of Capital = the weighted average cost of capital demanded by equity as well as debt holders.

Because it is impossible to estimate these cash-flows forever, the above calculation can be approximated by considering a limited period of time and estimating the terminal value of the firm at the end of the considered period. The terminal value encompasses the remaining future cash-flows after the forecast period.

$$VF = \sum_{t=1}^n \frac{EFCF_t}{(1 + \text{Cost of Capital})^t} + \frac{TV_n}{(1 + \text{Cost of Capital})^n}$$

where,

TV_n – Terminal Value of the Firm at the end of year n.

For evaluating the terminal value of a business, the most commonly used method is the stable perpetual growth model, which is based on the hypothesis that the future expected cash-flows grow forever at a stable rate (g).

$$TV_n = \frac{\text{Expected Cash - Flow for Year } n + 1}{\text{Cost of Capital} - g}$$

Alternatively, in order to assess the value of a company, we can discount the expected cash-flows for equity holders (the net income after debt payments and taxes) at the cost rate of equity.

In these discounted cash-flow models the effect of risks is incorporated in the discount rate. Using the capital asset pricing model (CAPM), the firm's levered equity beta reflects the riskiness of the cash-flows to equity. Similarly, the riskiness of the firm's free cash-flows is reflected by the firm's asset beta.

Risk adjustment in a DFC Model. In the Equity DCF Model, expected cash-flows represent expected cash flows to equity, and they are not adjusted for risk. Cost of equity increases as exposure to market (nondiversifiable) risk increases. The discount rate is unaffected by exposure to firm specific risks.

In the Firm DCF Model, expected cash-flows represent expected cash flows to all claimholders of the firm, and they are not adjusted for risk. In addition to the cost of equity effect, the cost of debt will increase as the default risk of the firm increases and the debt ratio may also be a function of risk.

In the valuation process of a firm the *relative valuation method* can be used, based on the market value multiples of comparable firms. This approach provides a rough estimation of a company's market value due to several inconveniences. For lack of identical firms on the market, the analyst has to identify similar firms to the one being valued as concerns size, cash-flows, financial structure, brand strategy, growth potential, exposure to risks.

The multiples used are related to the market price of the company's equity:

- *price earnings ratio (P/E)*, also called earnings multiple, directly relates the price of a share to the proportion of the company's profits that belong to the owner of that share.
- *market to book ratio (M/B)*, also called the multiple of book value, is the ratio of the current share price to the book value per share. It measures how much a company is worth at present, in comparison with the amount of capital invested by current and past shareholders into it.
- *price to sales ratio (P/S)*, also called the multiple of revenues, is a ratio for valuing a stock relative to its own past performance, other companies or the market itself.

- *P/EBIT or P/Cash-flow*, is a measure of the market value of a company's equity to its operating profit or cash-flow.

After selecting the multiples used in the valuation, the qualitative process of comparison starts, followed by the explanation of the differences between these multiples across similar firms, including why a firm is under- or overvalued relatively to similar companies.

3. Developing a Risk Management Strategy

Every business is exposed to risks, and therefore risk management should be considered as a central part of doing business. Risk is a danger and an opportunity, so the future uncertainty can be exploited in order to create more value.

Enterprise risk management (ERM) creates value through its effects on companies at both a "macro" or company-wide level and a "micro" or business-unit level. At the macro level, ERM creates value by enabling senior management to quantify and manage the risk-return tradeoff that the entire firm faces. By adopting this perspective, ERM helps the firm maintain access to the capital markets and other resources necessary to implement its strategy and business plan [Nocco, Stulz, 2006].

In developing a risk profile, analysts have to take into consideration the following steps:

1. make a list of all potential risks that the firm is exposed to. These risks include not only the firm-specific risks, but also the risks that affect the economic environment in which the firm operates (industrial and macroeconomic risks).
2. categorize risks into market risks; risks related to the firm's financing choices (financial and operational risks); risks that continuously affect the firm's activity, and event risks; risks that have a great impact on the firm's value and

risks that only affect the activity of the company to a smaller extent.

3. measure the firm's exposure to the above mentioned risks. Assess how different types of risks impact the earnings or the value of the corporation.
4. decide if hedging the risk exposure is required taking into consideration the costs and benefits of hedging. Hedging risks has both implicit and explicit costs that can vary depending upon the risk being hedged and the hedging tool used, and the benefits include better investment decisions, lower distress costs, tax savings and more informative financial statements [Damodaran, 2007]. Managers have to be aware of the fact that hedging risks does not always create added value for the stockholders.
5. evaluate which are the risks that the firm can cope with better than the competitors can. In the case of these risks that can be viewed as potential opportunities, a risk management strategy has to be implemented.

The last step should be crucial in every firm, because higher risk taking leads to higher returns, and can increase the competitive advantage on the market, by creating added value to the owners.

It does so by enhancing the investors' confidence in the management's ability to carry out the firm's business plan, simultaneously reassuring the rating agencies of the firm's ability to service debt, under most foreseeable circumstances [Fraser & Simkins, 2007].

4. Conclusions

The concept of risk has occupied a central and often controversial place in the financial theory and practice. A growing emphasis on risk assessment has marked the past 20 years of financial theory and practice and risk management has emerged as an independent study.

We can conclude that corporate governance can be a key part of good risk taking by increasing the value of the businesses, rather than reducing or increasing risk exposure, followed up by developing a valuation framework that incorporates all of the elements of risk management [Damodaran, 2007].

Too much emphasis has been put on risk hedging and too little on risk management. Risk management should be an important preoccupation in conducting every business. Enterprise risk management emerged in the last decades as a new way of doing business. ERM is not truly a new form of risk management; it is simply the recognition that risk management means total risk management, not some subset of risks [D'Arcy, 2001].

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DEVELOPING AND IMPROVING KNOWLEDGE MANAGEMENT PROCESSES IN THE EDUCATION SECTOR

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Abstract: *Considering the role of education in knowledge-based economy as a fundamental pillar, analyzing the contribution of knowledge management systems to the development and improvement of knowledge management processes is a must. There are some qualitative models used in order to achieve this goal, an important one from the perspective of the status of Romania as a European Union member. Called the McKinsey model, it was made operational by the European Committee for Standardization. The results of applying this model within an important university of Romania reveal that implementing functional knowledge management systems, projects and initiatives contributes substantially to the development of knowledge management processes.*

Key words: *knowledge management processes, McKinsey model, knowledge management initiatives.*

1. Introduction

According to IEEE [5], a knowledge management system is a class of information systems applied for organizational knowledge.

Thus, the models used in order to evaluate the efficiency of an information system may be used to evaluate the efficiency of implementing a knowledge management system, thus contributing to the development and improvement of knowledge management processes.

After studying the literature in the field, one conclusion can be drawn: because of the disparities between the theoretical and practical axes, the evaluation instruments are, in the first stage of development, mainly qualitative, incomplete and insufficiently operational.

2. Objectives

The main objective of the paper is to adjust one of the most frequently used and quoted models, the McKinsey model for evaluating the efficiency of implementing a knowledge-management system into an organization, to the realities of a higher education institution in Romania

The second objective is to apply the newly modified and adjusted model in order to evaluate the efficiency of implementing a knowledge management system into a higher education institution in Romania, starting from Romania.

3. Theoretical Background

According to a study [1], the success of a knowledge-management system and the contribution of implementing such systems to the development and improvement of

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knowledge-management processes, are evaluated at a far more abstract level, which is determined by many factors, unstructured and impossible to be managed.

A part of the syntheses of the accomplishments in the field are presented

in Table 1.

The conclusion of the study was that the instruments used are too general and insufficiently operational to be used, even though the necessity for such instruments is determined.

The instruments for evaluating knowledge-management system success

Table 1

Study	Knowledge management system	Performance criteria
Gottschalk, 2000	Data deposits, executive information system, expert system, intranet	Information support for knowledge management processes: generating, accessing, transferring, sharing and codifying knowledge
Ruppel, Harrington, 2001	Intranet implementation	The implementation level for sharing knowledge
Maier, 2002	Knowledge management system	DeLone and McLean model concerning success

The most utilized model is DeLone and McLean, being also the basis for other models derived from it.

Another model, very popular among researchers, is the McKinsey Model [4].

The model was made operational by the European Committee for Standardization, consisting in a questionnaire with sets of questions used to evaluate the contribution of an efficient implementation of a knowledge-management system or initiative to the development and improvement of knowledge-management processes.

The model was developed by Tom Peters and Robert Waterman, consultants at McKinsey & Co, and consists of seven elements. Three of them are called Hard S – structure, strategy and system - and the other four – skills, staff and shared values - is called Soft S [3].

4. Materials and Models Applied

In our approach, the model used is the McKinsey model [4], because of the status

of Romania as a EU member, and because it is considered complex and complete enough to contribute to the results of the study.

In order to apply this model, a questionnaire is used, and the results are important as they are situated at maximum and minimum, as there are strengths and weaknesses.

The first remark is that a study concerning the accomplishments regarding knowledge-management projects, initiatives and systems at the level of Romanian Universities was first done [2], and afterwards a single university was chosen to apply the McKinsey model, the name of the university remaining anonymous because of the wish of the university management.

The population of the Romanian university on which the questionnaire was used is 400 teaching staff and students. The techniques for establishing the population were: aleatory systematical techniques and aleatory techniques.

The questionnaire was adjusted in order to characterize the knowledge-management processes [5]: (1) creation, (2) storage, (3) sharing and (4) using knowledge and the (0) general situation.

The respondents were asked to describe their own attitude or opinion by assigning a score between 1 and 5 for each question. The seven characteristics of the model were used – (a) strategy, (b) shared values, (c) style, (d) staff, (e) skills, (f) structure

and (g) system – and two other characteristics: (h) attitudes and (i) performances, in order to evaluate the knowledge-management processes and the general situation.

5. Results and Discussions

The results obtained after applying the McKinsey model are presented in Table 2. Some facts were revealed that will be presented below.

The results of applying the McKinsey model

Table 2

0		1	2	3	4	Total
5.0	a.	4.5	5.0	4.0	5.0	4.6
5.0	b.	5.0	5.0	4.0	4.1	4.5
5.0	c.	3.4	3.4	3.4	3.4	3.4
4.5	d.	3.4	1.4	1.4	4.1	2.6
5.0	e.	4.5	5.0	4.5	5.0	4.7
5.0	f.	1.0	5.0	5.0	4.6	3.9
4.5	g.	5.0	5.0	1.4	4.6	4.0
Xxxx	h.	3.5	3.5	3.6	3.5	3.5
Xxxx	i.	4.5	4.5	4.1	3.4	4.1

The strengths of the university from the point of view of developing and improving knowledge-management processes at the educational level are represented by strategy, shared values and skills.

This means that the university has a strong strategy regarding knowledge-management processes, and that its organizational culture is favorable to the development of the processes through implemented knowledge-management initiatives, and also that the distinctive competencies in the educational field determined the success of the system.

The weaknesses are represented by the staff and the managerial style, namely the neutral perspective on the stimulants offered, a perspective justified by the fact that the use of the system is compulsory.

From the point of view of knowledge-management processes, the strengths are represented by the storage and the use of knowledge, because of the characteristics of the universities and the fact that the system implemented is used for the educational process. The weaknesses are represented by creating and sharing knowledge.

At the individual level, the strengths are represented by creating and storing knowledge.

Also, the perception of individual performances concerning the use of the system for knowledge-management process development, namely the individual contributions to this development, is favorable.

5. Conclusions

The main conclusion is that the analyzed university evolves favorably and in a coherent manner, which determines the development and the improvement of knowledge-management processes at the educational level, through the implementation of a knowledge-management system and projects.

At the organizational level, the aspects that require maximal attention are related to the involvement of the teaching staff and students in using the system for the development and improvement of knowledge-management processes – creation and usage of knowledge.

At the individual level, the aspects that require maximal attention are related to improving the attitudes of the users regarding the system, in order to develop and improve knowledge-management processes.

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ON THE QUALITY OF EMPLOYMENT IN THE EUROPEAN UNION

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Abstract: *Job quality represents a fundamental objective within the EU employment policy agenda, which allows assessing the labour market performance. The high work intensity, increase in temporary work, deterioration of working conditions and increasing competition on the labour market have caused the decline of employment quality in the EU over the last decades. The paper highlights the importance of considering the job quality as a dimension of the quality of employment services. In order to capture this new dimension, the paper proposes a set of job quality indicators, which are taken and adapted from the set of Laeken indicators. This new multidimensional approach allows measuring the job quality, which itself represents a fundamental dimension of the quality of employment services.*

Key words: *employment quality, job quality, employment agency.*

1. Introduction

In the last decades, the EU Member States have faced a number of common challenges such as globalisation, societal change and rapid technological progress. This requires a common policy strategy that facilitates transitions and modernizes labour market institutions. At present, the international financial crisis which started in 2008 is the most contagious and demanding phenomenon all over in Europe, with serious economic and social implications. In this particular context, in all Member States, unemployment represents a major threat, claiming for special social policies to support the vulnerable people during and after the crisis. When the competition on the labour market is sharply increasing, the quality of occupational services aiming at the labour market reinforcement is even more important than in the past. The employment agencies must promote high

quality services and prevent the exploitation of labour force, unfair practices and the lack of access on the labour market. They should also anticipate the changes occurring on the labour market and the future needs by ensuring a better management of this process.

Increase in employment and decrease in unemployment were the main targets of EU policies and strategies before 2000. For instance, the adoption of the European Employment Strategy (EES) in 1997 was aimed to enforce the labour market outcomes in the EU area but without specifically addressing the job quality at least as a subsidiary objective. The full employment is the central element of this strategy. The job quality issue was first introduced at the Lisbon Council in March 2000. The Lisbon Growth and Jobs Strategy, which was launched in 2000, continues the objectives of the EES but extends its area of interest by also

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promoting the quality and productivity at work. Besides full employment and social cohesion, quality of employment is thus seen as equally important within the EU employment policy agenda.

At present, both the quantitative and qualitative factors are taken into account to assess the labour market performance. While the improvement in quantitative terms is proven by the dynamics of the unemployment rates, the qualitative aspects are still hardly to be measured on a consensual base.

In recent years, the economic and social developments have determined the decline of job quality, which negatively affects the standard of living. The main factors which might explain this presumed effect are: increasing competition on the labour market implying growing difficulties in combining work and private life, increased use of temporary work and skill-biased technological progress.

Work quality, which has slightly increased as importance in the EU employment strategies, must be undertaken as a primary objective in Romania, as well. In this respect, job quality must become a part of the quality management of all employment agencies. This paper argues that the quality of employment must be seen in a broader sense and must also include the job quality as a fundamental dimension. In order to assess the quality of employment services in a dynamic perspective, the analysis should include several phases, before and after employment. Stressing the importance of job quality within the management of quality at employment agencies, the paper provides both theoretical and methodological tools.

2. Employment Services and Quality Management

Employment services are provided by governmental departments, national public agencies, regional centres, national and international organisations, NGOs and private consultancy companies. They normally offer vocational guidance, job brokering, vocational consultancy, psychological support, training etc. More and better jobs should be the target of the employment services, but most of them are oriented toward more jobs, without being concerned to assess the job quality, based on the feedback from previous clients.

In Romania, the role played by employment public agencies on the labour market is significant, but is slowly decreasing in general lines from one year to another or has little variation. For instance, consulting services and those for supporting the start of an independent activity or business increased by 2.29%, from 2007 to 2008. Through the information and counselling services provided by employment agencies, 16.15% of the unemployed found a job in 2008, as compared to 19.62% in 2007. The percent of the unemployed who got employed after attending vocational training courses was 4.71% in 2008, which represents a decrease by -7.68% as compared with 2007.

The management of employment agencies is centred on a number of key elements such as: strategies of human resources development based on competencies, planning and programming of activities, organisation of employment services, management of conflicts, team work, communication and inter-personal relationships, relations providers-customers, entrepreneurship management, project management and the social partnership in the field of employment services.

In the field of public employment services, the quality management is particularly important. It is built on a number of factors such as:

- a) People working in employment agencies must have good knowledge of entrepreneurship because many unemployed people want to start a business on their own. For this, the agencies must provide training courses to the unemployed before offering them a place to work, in order to provide them with the basic knowledge to act in business and to understand the functioning of an economic system. Also, the agencies must prevent the unemployed from doing the mistakes that normally occur at the beginning of a new business. In this respect, qualitative services mean highly prepared employees and training courses oriented to the market requirements, providing more practical tools and less theoretical information. The higher the quality of employment agencies is, the better the integration of the unemployed on the labour market.
- b) The mission of employment agencies must be broad in the sense that they must be concerned with the financing of business on the long term. The knowledge of project management is quite important not only for the unemployed, but also for the agency employees who must be able to finance the quality of employment public services from European funds.
- c) In order to ensure a high quality for the services they provide, employment agencies must be always in contact with universities, professional associations, syndicates, the local and central administration. They should know the requirements and changes occurring in the business environment, regarding competencies, work experience, knowledge, education etc., to prepare

the unemployed as to be successful on the labour market. This “social partnership” can increase the quality of public employment services, according to the principle of synergy that arises from this collaboration.

3. Quality of Employment – Key Factor of the Quality Management in Employment Services

The quality of employment is a multidimensional phenomenon, which relates to a broad set of individual jobs and workers’ characteristics, ranging from wages, training, health and safety at work etc. Work quality is a recent topic of research, with deep roots into the neoclassical economic theory. According to this theory, the wage differentials essentially compensate for all the non-pecuniary downsides of work. But the last decades have shown that significant rises in the GDP per capita and wages in the developed countries have not been accompanied by improvements in the employees’ level of job satisfaction. This paradox is explained by the large influence of the non-financial variables on self-reported satisfaction in the economics of happiness literature. Also, the empirical studies attest that the relative income is more important than the absolute income for workers, above a certain income threshold [1], [5].

Other authors argue against the use of job satisfaction indicators as a measure of job quality, emphasizing in empirical studies that the objective job quality indicators are not linked to job satisfaction [6]. This is explained by the convergence of the workers’ expectations and the objective characteristics of their jobs over time [2].

At present, even though there is no unanimous definition of job quality, the literature is centred on two approaches:

- Job characteristics represent the only factor defining job quality [3]. This approach focuses on the report capabilities-rewards granted to workers and neglects the socio-economic variables.
- Job quality should be assessed based on the interaction between employment and other life areas. This is the core of the TLM theory [9], which highlights the transitions in a lifecycle perspective, e.g. employment, unemployment, inactivity, temporary work, education, family care and non-paid activities. According to this theory, the employment quality should provide flexible arrangements, particularly as regards working time and security.

Some authors underline the synergy between job quality and other objectives of the European Employment Strategy, e.g. full employment, inclusion and social cohesion. Investing more in human capital and vocational training or improving the work organization can foster innovation activities and productivity growth [7].

Job quality is a concern for many international organizations, such as the European Foundation, Eurostat, OECD, ILO and the EU. They have participated together at seminars, conferences and meetings over time, in order to agree on defining job quality upon a number of indicators and dimensions, e.g. the fourth international seminar on the measurement of the quality of work organized in 2007 in Geneva. In the United States, the wages, pension plans and health insurance schemes are the central measure of job quality [10]. In this measurement framework, empirical evidence attests the worsening of work quality over past decades [4].

The deterioration of work quality is often associated with the segmentation of labour markets. The reforms of labour markets during the early part of this decade have

multiplied the number of workers caught in temporary contracts with little chance of moving to more secured jobs. This has induced the general perception that the governmental policies towards “more jobs” lead to precariousness, job insecurity and low quality jobs. The solution provided by the EU is called “flexicurity” and means flexibility and security in the labour market at the same time.

In literature, job quality is measured on the basis of a set of indicators which are summarized into an index. Ten dimensions of work quality were advanced at the Laeken European Council in 2001. They are known as the Laeken indicators: intrinsic job quality, lifelong learning and career development, gender equality, health and safety at work, flexibility and security, inclusion and access to the labour market, work organization and the work-life balance, social dialog and workers’ involvement, diversity and non-discrimination, overall economic performance and productivity. But the space of the work quality indicators is opened for improvement. For instance, the European Commission advances an alternative measurement framework, in the space of the following dimensions: socio-economic security, training, working conditions and reconciliation of working and non-working life and gender balance [12].

Four job quality models have been defined in literature [12], i.e. Northern, Continental, Southern and New Member States. The EU Member States are mapped into these models, according to their economic and social characteristics. The New Member States’ cluster includes Poland, Romania, Hungary, Bulgaria, Slovakia, the Czech Republic, Latvia, Lithuania and Estonia. This system has a number of common characteristics: low wages, unfavourable working conditions (high health risk), low work intensity, high

educational attainments, low gender employment gaps, high productivity growth rates.

Even though it is widely recognized at present that job quality should be a primary objective that must be included in all labour market strategies and policies, passing from theory to practice is still difficult. In this paper, we advance an adaptation of the Laeken indicators, in order to make them useful for employment agencies. From the list of Laeken indicators, we have selected a sub-set which allows the assessment of job quality and, at the same time, it gives insights to the quality of employment services provided by agencies (table nr.1). Using this sub-set of indicators, they might follow and analyze the dynamics of quality over time.

Indicators Table 1

Satisfaction with type of work in present job
Percentage of the labour force using computers in work, with and without specific training
Percentage of the working age population participating in education and training
Employment/ unemployment rate gap between men and women
Gender segregation in occupation and in sectors
Ratio of women's gross hourly earnings to men's for paid employees at work
The evolution of the incidence rate
Number of employees working part-time and with fixed term contracts as a percentage of the total number of employees
Youth unemployment ratio
Percentage of early-school-leavers
Employment rate gap for workers aged between 55 and 64 years old
Employment and unemployment rate gaps for ethnic minorities and immigrants
Growth of labour productivity (per hour worked and per person employed)

Source: Laeken indicators (European Commission, Employment in Europe 2008) adapted by the author.

4. Conclusions

Job quality is one of the key elements of the renewed European Social Model, which reconciles economic efficiency and social cohesion in an environment characterized by more intense global competition [12]. As shown in the paper, job quality is worsening from one year to another, due to the increasing competition on the labour market and to the changes occurring in the work structure. In fact, the employment growth in the EU over the last decades has evolved together with the concern about the quality of the European jobs related to the growth of temporary jobs, deterioration of working conditions and higher work intensity. The employment agencies (particularly the public entities) should undertake this task, as they act as intermediaries on the labour market.

According to the principle “more and better jobs”, the employment agencies must help the unemployed to find not only a job, but a good job, according to the definition of work quality. As intermediaries on the labour market, they must filter the jobs and therefore encourage and promote only the jobs characterized by a minimum acceptable qualitative level. We consider that the performance of the employment agencies is not reflected only by the number of the unemployed who were helped to find a job, but also by the “good” jobs which they promoted. The job quality promoted by the employment agencies gives insights to their management of quality system.

The paper underlines the multidimensional nature of job quality and employment service quality. It presents the sets of indicators which are used in the EU to operationalize the job quality and highlights the importance of its measurement in the present socio-economic context. With the composite measure of the job quality, the index

measuring the quality of employment services is enriched and gains another dimension. This new dimension actually connects job characteristics to the standard of living. Not only wages, socio-economic security, working conditions and work intensity characterize the job quality, but also the reconciliation of work with private life, and the lifelong learning and career development.

The main outcome of the paper is the selection of a sub-set of indicators from the Laeken indicators, which can be used by employment agencies to assess the job quality they intermediate. The job quality should be considered as a dimension of the quality of employment services and its assessment over time should be useful for improving the quality management of employment agencies.

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ECONOMIC DATA PROCESSING

THE INFORMATION SYSTEM

Cristina ANTONOAI ¹

Abstract: *A scientific research was carried out using a form, which was filled out by 335 businesses from Brasov County, through which we wanted to determine the awareness degree in regard to some information system notions. To analyse the data the SPSS software was used. The research reached the conclusion that the employees of businesses from Brasov County know very little about information systems.*

Key words: *business game, management simulation, executive dashboard..*

1. Introduction

A scientific research was carried out using a form, which was filled out by 335 businesses from Brasov County, through which we wanted to determine the awareness degree in regard to some information system notions.

2. Objectives

The general hypothesis from which we started was that the employees of the businesses in Brasov County know little or very little regarding information systems specialised in business administration. The main reasons for which businesses here do not use a specialised system is the lack of funds.

3. Results

Next we have presented the obtained results after processing the 335 forms as individualised tables for each analysed notion.

Table 1

Business game		
	No of responses	%
Barely known	109	32,53
Somewhat known	77	22,89
Medium known	49	14,46
Known	89	26,81
Well known	11	3,31
Total	335	100,00

Regarding the “business game” notion the most frequent answer (32,53%) was “barely known”. Also “somewhat known” was the answer given by 22,89% of the respondents. This means that 55,42% of the people who responded do not know the meaning of “business game” compared to only 30,12% who have responded that it is “known” and “well known”. The 14% who have given a neutral answer have heard of business games from other people.

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Table 2

Management simulation		
	No of responses	%
Barely known	72	21,39
Somewhat known	100	29,82
Medium known	58	17,17
Known	86	25,90
Well known	19	5,72
Total	335	100,00

Regarding the notion “management simulation” the most frequent response (29,82%) was “barely known” which with “somewhat known “ with 21,39% constitute 51,20% of total responses. So over 50% percent of the respondents do not know the notion “management simulation”. The percentage of those who know this notion is 31,63%.

Table 3

Business simulator		
	No of responses	%
Barely known	69	20,36
Somewhat known	100	30,09
Medium known	66	19,76
Known	82	24,62
Well known	18	5,17
Total	335	100,00

Regarding the “ Business simulator” notion, 50,45% of the respondents do not know this notion; 20,36% have responded that is barely known and 30,09% somewhat known. Those who know it represent only 29,79%; 24,62% have mentioned that it is known and 5,7% that it is very well known.

Table 4

Global management competition		
	No of responses	%
Barely known	93	27,74
Somewhat known	91	27,13
Medium known	60	17,99
Known	65	19,51
Well known	26	7,62
Total	335	100,00

The “global management competition” is barely known by 27,74% of the respondents and somewhat known by 27,13%. Therefore 55,87% of the respondents do not know this notion in comparison with the 27,13% which know it.

Table 5

Executive dashboard		
	No of responses	%
Barely known	88	26,22
Somewhat known	69	20,43
Medium known	66	19,82
Known	90	27,13
Well known	22	6,40
Total	335	100,00

Regarding the “executive dashboard” notion, it barely known by 26,22% of the respondents and somewhat known by 20,43%. Thus 46,65% do not know the notion of “executive dashboard”. 33,54% of the respondents know this notion out of which 6,4% mentioned that it is very well known.

Table 6

Expert system		
	No of responses	%
Barely known	86	25,70
Somewhat known	92	27,55
Medium known	65	19,50
Known	76	22,91
Well known	16	4,33
Total	335	100,00

The “expert system” notion is barely known by 25,70% of the respondents, and somewhat known by 27,55%. So, 53,25% of the respondents do not know this notion. The ones who know it represent only 27,24%.

Table 7

The ICT notion (The Information and Communication Technology)		
	No of responses	%
Barely known	82	24,55
Somewhat known	66	19,70
Medium known	57	16,97
Known	89	26,67
Well known	41	12,12
Total	335	100,00

The ICT notion is the first notion for which the most common response was “known”. Therefore, 26,67% of the respondents says that it is known and 12,12% very well known. Barely known was the response of only 24,55% of the respondents.

Table 8

MIS (Management Information Systems)		
	No of responses	%
Barely known	89	26,38
Somewhat known	79	23,62
Medium known	61	18,10
Known	88	26,38
Well known	18	5,52
Total	335	100,00

MIS is unknown to 50% of the respondents; 26,83% says it is barely known while 23,62 said it is somewhat known. The percentage of those who know it is 31,9% out of which 5,52% have mentioned it to be very well known.

Table 9

MRP (Material Requirements Planning)		
	No of responses	%
Barely known	93	27,13
Somewhat known	91	27,03
Medium known	59	17,68
Known	73	22,26
Well known	19	5,79
Total	335	100,00

MRP is barely known by 27,31% of the respondents and somewhat known by 27,03%, adding to a total percentage of 54,17%. Those who know it are 28,05% of the total, out of which 5,79% say it is very well known.

Table 10

DSS (Decision Support System)		
	No of responses	%
Barely known	118	35,17
Somewhat known	81	24,16
Medium known	56	16,82
Known	62	18,35
Well known	18	5,50
Total	335	100,00

DSS is the notion for which most of the responses were “barely known” – 35,17%, followed by “somewhat known” with 24,16%. The percentage of those who know the notion is 18,35%, and those who know it very well is 5,5%.

Table 11

ISS (Intelligent Support System)		
	No of responses	%
Barely known	121	36,00
Somewhat known	75	22,46
Medium known	70	20,92
Known	56	16,62
Well known	13	4,00
Total	335	100,00

ISS is unknown to 58,46% of the respondents – 36% barely known and 22,46 somewhat known. At the opposite end the notion is known to only 16,62% and very well known by only 4%.

Table 12

ERP (Enterprise Resources Planning)		
	No of responses	%
Barely known	98	29,14
Somewhat known	85	25,46
Medium known	50	15,03
Known	75	22,39

Well known	27	7,98
Total	335	100,00

Regarding ERP 29,14% of the respondents says it is barely known and somewhat known by 25,46. Thus, for 54,6% of the respondents, the notion is unknown. On the other hand, 22,39% of the respondents said that the notion is known and 7,98% very well known.

Table 13

CRM (Customer Relationship Management)		
	No of responses	%
Barely known	77	23,01
Somewhat known	73	21,78
Medium known	58	17,18
Known	91	27,30
Well known	36	10,74
Total	335	100,00

For CRM the most common answer is known, with 27,3% of the total. Also very well known has a percentage of 10,74. Nevertheless, for 44,79% of the respondents the notion is unknown, barely known to 23,01% and somewhat known to 21,78%.

Table 14

SCM (Supply chain management)		
	No of responses	%
Barely known	120	35,71
Somewhat known	69	20,50
Medium known	79	23,60
Known	49	14,60
Well known	19	5,59
Total	335	100,00

SCM is unknown to 56,21% of the respondents, which means barely known to 35,71% and somewhat known to 20,5%.

At the opposite end, it is known by 14,60% and very well known for just 5,59%.

Table 15

SAP (Systems, Applications and Products in Data Processing)		
	No of responses	%
Barely known	105	31,31
Somewhat known	66	19,76
Medium known	62	18,54
Known	76	22,80
Well known	25	7,60
Total	335	100,00

SAP is barely known by 31,31% and somewhat known by 19,76%. It is also know by 22,8% and very well known by 7,6%.

Table 16

SOA (Service Oriented Architecture)		
	No of responses	%
Barely known	138	41,28
Somewhat known	88	26,30
Medium known	65	19,27
Known	36	10,70
Well known	8	2,45
Total	335	100,00

For SOA the most common answer was barley known with 41,28%, followed by somewhat known with 26,3%. Only 10,7% have responded that the notion is known and 2,45% very well known.

4. Conclusions

In conclusion, out of the notions examined, grouped by percentage of the answers “known” and “very well known”, a final table would look like this:

1. ICT (38,79%),
2. CRM (38,04%),

3. Executive dashboard (33,54%),
4. Management simulation (31,63%),
5. SAP (30,40%),
6. ERP (30,37%),
7. Business Game (30,12%),
8. Business Simulator (29,79%),
9. MRP (28,05%),
10. Expert system (27,24%),
11. Global Management Competition (27,13%),
12. DSS (23,85%),
13. ISS (20,62%),
14. SCM (20,19%),
15. SOA (13,15%).

We must take into account the fact that for each of the notions mentioned, the predominant answers were “barely known” and “somewhat known”, therefore the notions are unknown. The table by these ratings looks like this:

1. SOA (67,58%),
2. DSS (59,33%),
3. ISS (58,46%),
4. SCM (56,21%),
5. Business Game (55,42%),
6. Global Management Competition (54,88%),
7. ERP (54,60%),
8. MRP (54,17%),
9. Expert system (53,25%),
10. Management simulation (51,20%),
11. SAP (51,06%),
12. Business simulator (50,46%),
13. MIS (50,00%),
14. Executive dashboard (46,65%),
15. CRM (44,79%),
16. ICT (44,24%).

All in all, the best known notion by the employees of the 335 businesses which responded is ICT (Information and Communication Technology) and the least known is SOA (Service Oriented Architecture).

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AN ANALYSIS OF COMBATING VAT FRAUD IN THE EUROPEAN UNION USING NEW IT TECHNOLOGIES

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Abstract: *European VAT fraud has been growing at an alarming rate [2]. The level of VAT losses for one year is between €60bn and €100bn for all member states. This level of fraud has created an urgent need for Europe to address the issue of the reform of the VAT system.*

Key words: *IT, VAT, VIES, fraud.*

Since 1992, VAT fraud has been on a continuous increase. This is due to the fact that businesses have been allowed to trade goods and services across borders without being charged for the tax.

The best known fraud is "the missing trader". This fraud is usually committed by importers of small, high-value goods, who collect VAT from their customers and then disappear without passing the tax on to the government.

The Brussels-based International VAT Association (IVA) states in its report published on 03.06.2007 [1] that Europe's VAT systems are "hemorrhaging" revenues as a result of scams based on the black economy, deliberate insolvencies and the so-called "missing trader" fraud, which exploits the zero-rating of goods sold across borders.

The IVA [1] wanted to use the new technology to improve transaction tracking and speed up exchanges of information.

For the purpose of the Directive 2002/38/EC, the services concerned are defined as "electronic services" or

"electronically supplied services". The changes in their tax treatment eliminate a long-standing competitive distortion by ensuring that both non-EU suppliers and EU suppliers are subject to the same VAT rules when they provide electronic services to EU customers.

When a non-EU supplier wants to sell to business customers in the Union (at least 90% of this market), there will be no change practically and the VAT implications will be handled by the acquiring company in the EU under self-assessment arrangements.

For the non-EU supplier whose EU customers are non-business individuals or organizations, there will now be an obligation to charge and account for VAT on these sales just as EU suppliers have to.

The most significant new feature introduced by the Directive is the simplified scheme which can be availed of by non-EU operators making B2C supplies into the EU.

This simplified scheme recognizes the unique circumstances of non-established

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traders providing digital services and provides a fair and efficient means for these traders to meet their fiscal obligations.

For non-resident businesses the registration aspect of this simplified scheme is easier to operate than the existing rules. The benefit of this scheme is to carry a single point of contact for the entire community, with a set of simplified, harmonized tax obligations.

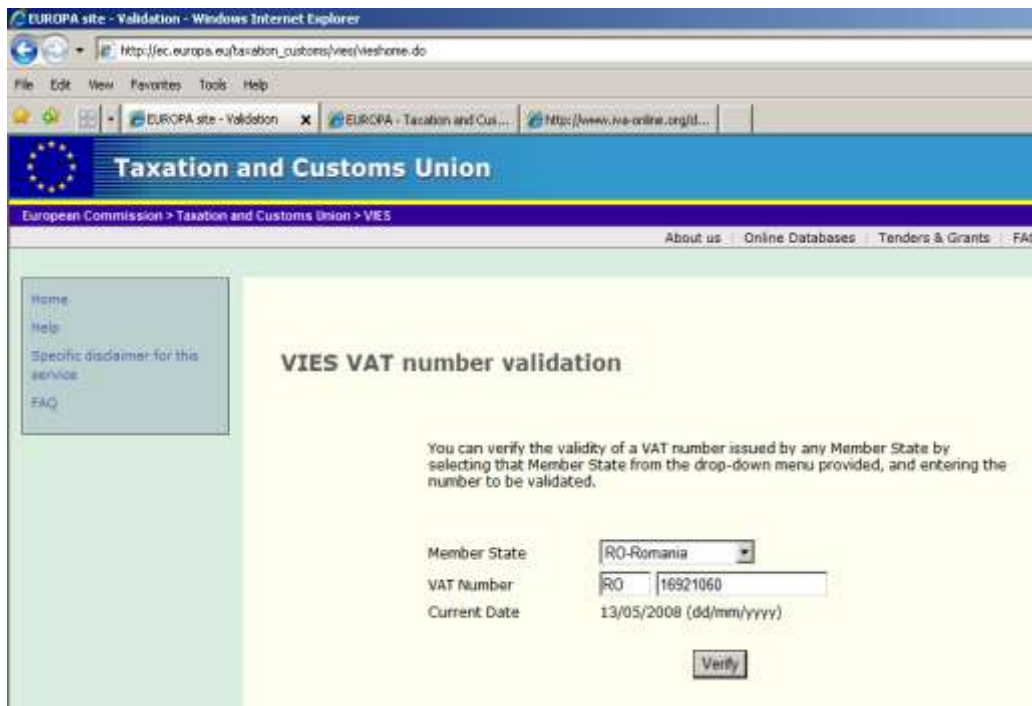
The data is real-time for VIES (VAT Information Exchange System). For any request, a message is sent to the member state which issued the VAT identification number asking if the number quoted is valid.

The VIES Objective

The objective of the web-site application is to allow persons involved in the intra-community business to obtain confirmation of the validity of the VAT identification number for any specified person, in accordance with Article 27 of Council Regulation (EC) No. 1798/2003 of 7 October 2003.

The verification is done using the national VAT database corresponding to the member state where the specified person is located. There is no VAT database at community level; there are just national databases in each member state.

The request is directed to the national database via a secure Intranet service which connects national Customs and Taxation administrations, and the reply is sent back soon.



The image shows a screenshot of a web browser displaying the VIES VAT number validation page. The browser title is "EUROPA site - Validation - Windows Internet Explorer" and the address bar shows "http://ec.europa.eu/taxation_customs/vies/vieshome.do". The page header includes the European Union flag and the text "Taxation and Customs Union". Below the header, there is a navigation menu with links for "Home", "Help", "Specific disclaimer for this service", and "FAQ". The main content area is titled "VIES VAT number validation" and contains the following text: "You can verify the validity of a VAT number issued by any Member State by selecting that Member State from the drop-down menu provided, and entering the number to be validated." Below this text, there are three input fields: "Member State" with a dropdown menu showing "RO-Romania", "VAT Number" with a text box containing "RO 16521060", and "Current Date" with a text box containing "13/05/2008 (dd/mm/yyyy)". A "Verify" button is located below the input fields.

Figure 1 - VIES VAT number validation

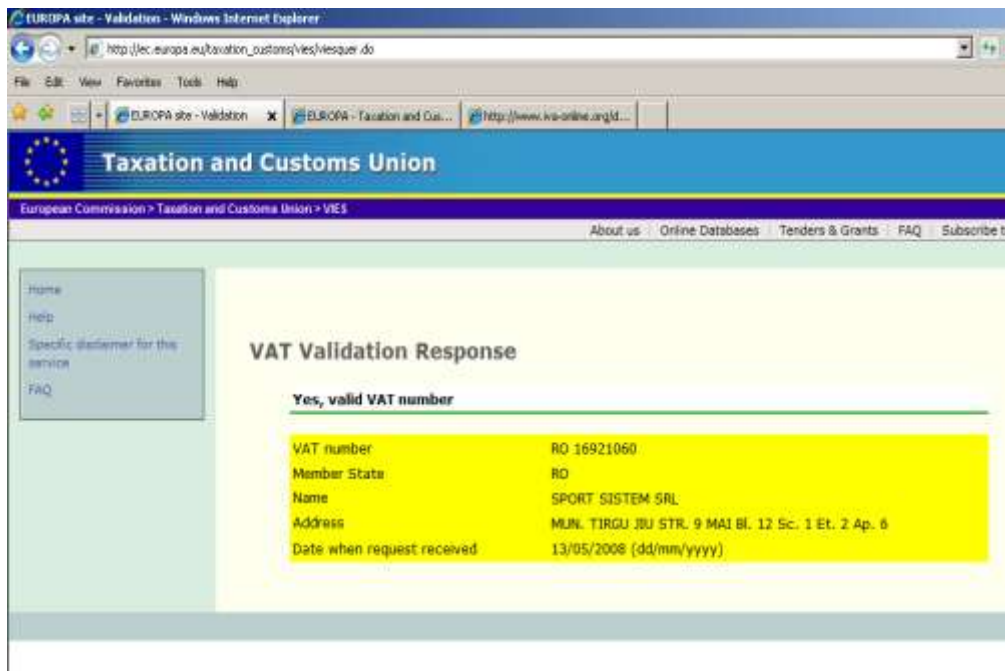


Figure 2 - VAT validation response

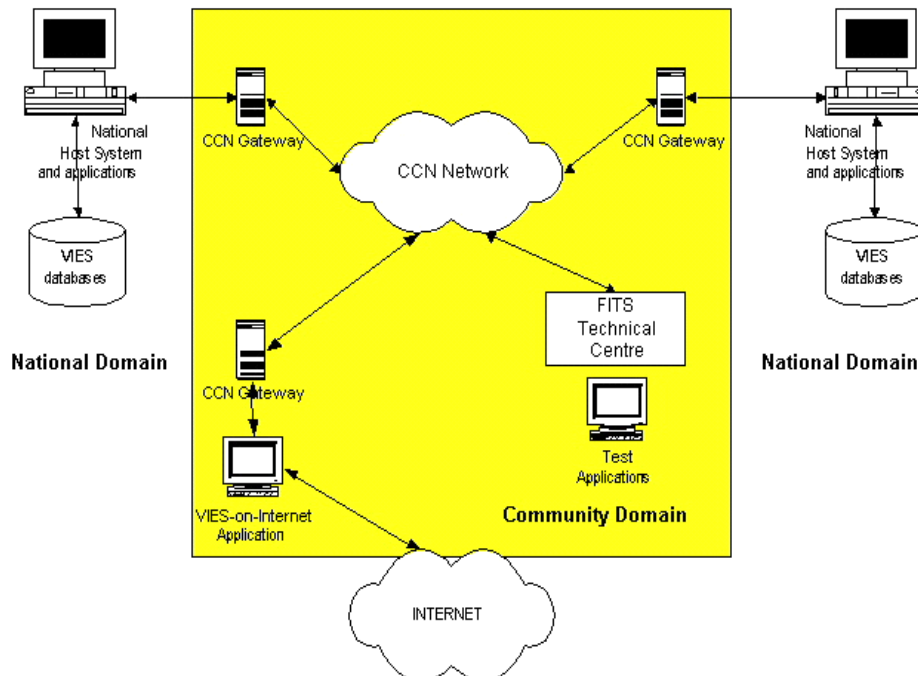


Figure 3 - VIES Architecture [6]

Technically, each member state has a national VIES database. The VIES system provides access from one national database to another. There is no central database.

Applications in the Community

Domain currently include:

A. VIES Monitoring Applications

(covering the VIES and VIES-on-Web monitoring applications)

B. VIES Statistics Applications (covering the VIES and VIES-on-Web statistics)

C. VIES Test Application

D. VIES Initial Application

E. The VIES-on-Web Application

(covering the interactive and API - Application Programming Interface version).

A. VIES Monitoring Applications

allow the Fiscalis Technical Centre to verify the correct operations of the VIES Systems in the national administrations, as well as the VIES-on-Web system in the Directorate-General for Informatics of the Commission.

The VIES Monitoring application comprises:

- **the Monitoring Engine** - it sends VIES requests periodically to each Member State and records the response of these requests in statistical log files
- **the Display Module** - it reads information from the statistical log files and graphically displays the current availability of VIES services in the different Member States.

The VIES-on-Web Monitoring Application was developed by the Commission. This application is hosted in the Commission by the Directorate-General for Informatics. It consists of two parts:

- A java module sending (configurable) HTTP requests to VIES-on-WEB every 10 minutes
- Shell scripts checking:

1. if the VIES-on-Web processes are running normally;
2. if the processes on the hosting machine are not overloaded
3. the traffic of the current day via the statistical log files.

B. VIES Statistics Applications create statistics about the traffic on the VIES System and the VIES-on-Web system. The VIES statistics system is used by Fiscalis Technical Centre to produce the monthly statistics for VIES and VIES-on-Web.

The database used for storing the statistics is created in Oracle.

The VIES statistics system uses the following as input to produce the statistics:

1. the daily generated Common Communications Network / Technical Centre traffic statistics files including the error information in case of errors detected by Common Communications Network/Common System Interface during the transmission of a synchronous request submitted with a valid type;
2. the daily generated log files resulting from the VIES monitoring application, which periodically sends preformatted messages to each Member State;
3. the service call data which is available in the Service Management Tool used by the Fiscalis Technical Centre.

C. The VIES Test Application - Each time an extension is required to the VIES System, it must be implemented in the National Applications and in the VIES Test Application. This tests the member states' implementation of the extension. The VIES phase V testing application has been updated for B2B services.

D. The VIES Initial Application is a core application that has been updated for B2B services. This application serves as reference for the National Administration. For the VIES Testing Application, each time an extension is required to the VIES System, it should be implemented in the initial application.

E. VIES-On-Web - A particular "client" was developed and implemented in 2001, the VIES-on-Internet application. Traders visiting the UE web site hosted by the Commission can verify the validity of VAT numbers via "VIES-on-Web". Since November 2005, a VIES-on-Web API has been added to VIES-on-Web, allowing companies and Member State administrations to check VAT identification numbers immediately from within an IT system.

An Analysis of VIES

Advantages

- The application allows the persons involved in the intra-community business to obtain confirmation of the validity of the VAT identification number of any specified person
- The module VIES Statistics Application creates statistics about the traffic on the VIES System and the VIES-on-Web system.
- Applications can be made at any time – 24 hours a day 7 days a week, until the closing dates.
- This type of application is quick and easy to create and to implement.
- The system can check for errors.
- There is no risk that the application will get lost in the post.

- The system has a series of security procedures which will prevent anyone who seeks information they are not entitled to from doing that.

Disadvantages

- VIES is a web application, and consequently, each organization needs online access for using it.
- There is no common VAT database at community level. There are national databases in each member state. This causes many exchanges of information between member states' databases.
- If one database does not work, the request cannot be transmitted to other member states.
- A study [8] has revealed that only 81.9% of Romanian organizations have computers, and only 64.16% use the Internet. 27.97% of Romanian organizations have websites and 7.15% use online shopping.
- For the European Union, a similar study [7] shows that 85.3% of small businesses and 95% of medium businesses own computers. Only 73% of small businesses are connected to the Internet.

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A SOFTWARE APPLICATION FOR MANAGING GRADUATES AND THE GRADUATION DIPLOMA IN THE UNIVERSITY

Camelia MÎZGACIU¹

Abstract: *This paper presents the structure mode of organization and storage of data that is contained in a graduation diploma. The graduation diploma is of three types, based on the three important cycles of study (bachelor, master, and doctoral degree). We do an analysis of the information that is included in the graduation diploma and how we can manage this from the quality point of view.*

We print the graduation diploma once on the form, elaborated by our Ministry of Education, Research and Innovation (MECI), we can make a duplicate in certain cases.

We suggest an online application which is based on a software solution using Apache, PHP and MySQL.

Key words: *conceptual model, database, graduation diploma, qualitative.*

1. Introduction

Making a software application to improve registration and filling in process of education documents issued by universities insures easier work for persons working within the education documents department and rapid access to information related to education documents.

The analysis of the current diploma filling in process reveals several weak points, such as:

- non-unitary shape of diplomas;
- a lot of work time;
- lack of a computerized data base containing information related to diplomas issued to graduates.
- the sets of diplomas printed by MECI do not keep the same distance of the pre-printed side as compared to the

page edges, thus creating problems to any printing application.

To eliminate these flaws we suggested the execution of an advanced application that should include information related to diplomas as well as the possibility of printing them according to certain standard formats, for all kinds of education diplomas necessary for the said education level (bachelor, master, doctor, post-university studies) and all necessary related records. The information contained in the database is also useful for filling in other related documents for students, thus avoiding manual filling in on a repeated basis.

The advantage of introducing this software application for the issue of education documents is the collection and rapid processing of such a large number of data.

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The suggested application runs on a web-server (weather local or remote) and it was created using dynamic web pages, with the help of PHP language, using the database management MySQL server for data storage and interrogation ([3],[4]). The main reason for choosing the development environment (dynamic web page) was the fact that the system's requirements on which the application will run are minimal, with all operations executed by the server and offered to the user.

The format of the bulletin will be A4. The article, inclusively the tables and the figures, should not exceed 6-8 pages. The paper extent is of minimum 4 pages, and an even number of pages is compulsory. The last page will be filled at least 70%.

A person may participate, within a volume, with a paper as first author and one as co-author. Doctorate coordinators may be co-authors for several papers of their doctoral students, if they contributed

to their development.

The paper will be written in British English, using Times New Roman (TNR, Microsoft Word). We strongly advise to use this template and insert the text of the paper directly within this file.

2. Application Description

The application is made up of three main components, functionally interconnected, namely:

- **database** – a relational database which stores in well defined tables the application's structure;
- **administration interface** – this component is accessed by the administrator and stands for the database administration interface. This interface is also called *back-office*;
- **user interface** (*front-office*) – this component is accessed by users.

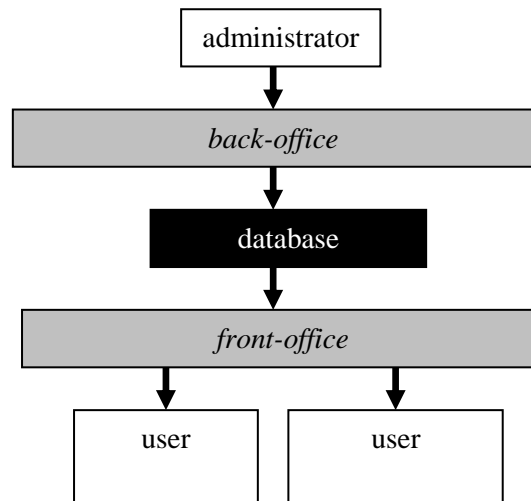


Fig. 1. Structural pattern of the application

The application is accessed using one of the following commands:

1. http://nume_server/ProiectDiplome/, where *nume_server* is the server's identification name in the network or its IP.

This command is used when the application is hosted by the Intranet local server.

2. http://www.nume_domeniu/cale, where *nume_domeniu* is the name of any site hosting the application. This sequence is used if the application is hosted by an Intranet server.

Considering that the application requires the administration of a database it was required to make a conceptual pattern of the database ([2]) according to entity relation methodology, by going through the following stages:

- Identification and documentation of the entity types;
- Specification of the relation types;
- Identification and documentation of attributes associated to the entity types;
- Revising the conceptual pattern with the user's help.

The main types of entity found within the application are: student, university, faculty, field of study, subjects, types of diploma, users.

Description of entities making up the suggested pattern:

Student – this table contains personal data of a student (surname, first name, date of birth, personal identification number, etc). The student belongs to an organizational unit (University/Faculty/Specialization);

University – this table stores data about universities;

Faculty – this table contains data about the faculties within a university;

Field of study – this table stores information related to the fields of study

found within a faculty;

Subjects – contains information related to subjects required for the bachelor's admittance or graduation examination, etc.

Types of diploma - this table stores information related to type of diploma;

Users – information related to the application's users.

3. Optimization of Document Generation

When making diplomas different solutions were tried to simplify the generation of documents, such as creating a document in Word or another text editor where information from the diplomas should be entered. The problem is that this method requires a lot of time until the text is arranged so as to fit into the diploma box space. There is also no real speed boost because the information must be introduced for each diploma, both for spine and for the document itself. There are also differences from one set of diplomas to another, which require text arrangement. Moreover, some field of study denominations are very long, which makes the text exceed the edge spacing; this requires modification of font size, making a new series of tests until text fitting is reached, which requires time and paper. But the suggested application can deal with all these problems, offering a rapid and easy solution for diploma printing.

The application offers the following facilities:

- the possibility to create personalized profiles for each field of study containing the education type and duration, graduation type, bachelor's graduation examination subjects, etc., number of credits, examination session and title obtained upon graduation for a certain field of study. An important advantage is that this data must be introduced only once for one field of

study, and according to the personal identification code the application reads the graduate's personal data (students' personal data is imported from .xls, .dbf, .csv files in MySQL) stored in the database; and all other data will be automatically filled in by the software.

- the bachelor's admittance or graduation examination grades can be introduced very easily. The examination average score is automatically calculated by the software according to

MECI regulations related to the average score rounding off, which thus allows once more verifying the calculation correctness of average scores recorded in examination records;

- the software allows editing of the examination subjects, fields of study, faculties and universities list, offering the possibility to change the existing options or to add new fields of study, etc. This information too must be tested only once, subsequently selected by running menus;

Fig.2. Entering data for a diploma

- the software automatically redimensions the font so that large texts too could fit into their boxes, keeping text legibility at the same time.
- the suggested application allows introduction of distance to the left top

corner of the pre-printed side on the front page and overleaf, then automatically adjusts the page items to be correctly placed in the diploma. Moreover, the introduced distances continue to be memorized after closing

the software, so that they won't need to be introduced each time the software runs.

- before diploma printing, you can see on the screen the information which is going to be printed for a last check before printing. This way, the possibility of error occurrence is minimized and the number of cancelled diplomas will be almost zero;
- except for printing all types of diplomas and certificates issued by universities, the suggested

application allows the printing of registers for both education documents and graduate repertories issue;

- rapid search of information related to graduates and diplomas received is made using the "Glossary" page;



Fig. 3 View data for diploma

4. Conclusions

The application uses only open-source technologies and does not require any software license. The technology used in making the entire software does not require any additional investment in operation systems or software running on server. *Apache* and *MySql* servers and *PHP* language offer a solid base and insure

safety of data, without asking anything in exchange. The application thus executed offers multiple possibilities of adjusting to the type of diploma, in an intuitive and friendly way.

Since *PHP* language allows modular programming and interactive graphic on the server, new modules can be added to the application.

The executed application is independent from the operation system (runs both on Windows and MacOS or Linux), provided a network connection is insured and a web navigator (browser) installed, such as for example Internet Explorer, Mozilla Firefox, etc., which are usually installed at the same time with the operation system.

When choosing the development environment the compatibility between PHP language (which can easily imbricate an html code) and MySQL was considered, which allows good communication with the database.

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EVALUATING THE SELECTION AND TIMING ABILITIES OF A MUTUAL FUND

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A. GRIMM¹ S. FISCHER¹

Abstract: *The paper presents the methodology and a case study to evaluate the performance of a mutual fund by taking a look at the timing and selection abilities of a portfolio manager. Separating the timing and selection abilities of the fund manager is taken into consideration by two major models. The data about the mutual fund chosen for study is the German blue chip fund "DWS Deutsche Aktien Typ O", which includes most of the DAX 30 companies. The data consists of 117 monthly observations of the fund returns from January 1999 to September 2008. We used EViews to analyse the data.*

Key words: *selection ability, timing ability, portfolio risk, regression analysis.*

1. Methodology

The literature discusses three major models to evaluate timing and selection abilities. At first we considered taking a look at the overall performance of the fund manager. Therefore we decided to use Jensen's Alpha (1968) model:

$$R_{pt} - R_{ft} = \alpha_J + \beta^*(R_{mt} - R_{ft}) + u_{pt}$$

Although Jensen assumes stationarity in systematic risk, which is not the case in an actively managed fund over a long period of time, we used it to provide an image of the overall performance.

In a next step we wanted to separate the timing and the selection abilities of the fund manager by taking into consideration two major models: Treynor and Mazuy (1966) and Henriksson and Merton (1981). As a result of several empirical studies about the reliability of the Treynor and Mazuy (1966) model that showed that its beta estimates are biased (see e.g. Grinblatt and Titman (1991)), we decided not to use this model in our analysis. Hence, we

decided to choose the model of Henriksson and Merton (1981):

$$R_{pt} - R_{ft} = \alpha_T + \beta_u * X_{ut} + \beta_d * X_{dt} + u_{pt}$$

where

$$X_{ut} = \max [0, R_{mt} - R_{ft}];$$

$$X_{dt} = \min [0, R_{mt} - R_{ft}]; \text{ and}$$

u_{pt} = random error term.

$(R_{pt} - R_{ft})$ is the excess return of the fund p over the risk-free rate f . $(R_{mt} - R_{ft})$ is the excess return of the market portfolio m over the risk-free rate f .

The main advantage of using this model is that it clearly separates the fund manager's timing and selection abilities.

The selection ability is shown by the intercept α_T , while β_u represents the timing ability in an up-market, β_d in a down-market, respectively. In order for the fund manager to have selection ability, α_T should be statistically significant and above zero.

As for the timing ability, the up-market β_u and the down-market β_d should be significantly different from each other (H_0 :

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$\beta_u = \beta_d$) and for a good market timer β_u should be greater than β_d .

In this case a fund increases its advantages in an up-market by increasing its systematic risk and reducing the negative effects in a down-market by reducing its systematic risk.

2. Data

For the mutual fund we chose the German blue chip fund "DWS Deutsche Aktien Typ O" (ISIN: DE0008474289) [1] which includes most of the DAX 30 companies. The data consists of 117 monthly observations of the fund returns from January 1999 to September 2008.

For the market portfolio, we chose the DAX 30 PERFORMANCE index because it is representative for the German market's blue chips and it includes the same equities as in the fund's portfolio. We calculated the returns using the

continuous compound returns formula $R_t = 100 * \text{LN}(P_t/P_{t-1})$.

For the risk-free rate we chose the 3 months EURIBOR, which is generally used in the Euro-zone. We divided the annualised EURIBOR data by 12 to be consistent with the monthly returns of the fund and market portfolio. We collected our data from Datastream.

3. Empirical Results

Estimating the Jensen regression we came to the following results:

$$R_{pt} - R_{ft} = 0.001152 + 1.004246 * (R_{mt} - R_{ft})$$

(0.001701) (0.025269)

Running the t-test on the coefficients shows that the estimated Jensen Alpha of 0.001152 – although positive - is not significantly different from zero.

The Beta coefficient is highly significant, as it may be seen in the regression from Table 1.

JENSEN REGRESSION

Table 1

Dependent Variable: EX_RET_FUND
Method: Least Squares
Date: 10/01/08 Time: 15:45
Sample: 1999M01 2008M09
Included observations: 117

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EX_RET_MK	1.004246	0.025269	39.74172	0.0000
C	0.001152	0.001701	0.677452	0.4995
R-squared	0.932130	Mean dependent var		9.01E-05
Adjusted R-squared	0.931539	S.D. dependent var		0.070318
S.E. of regression	0.018399	Akaike info criterion		-5.136120
Sum squared resid	0.038929	Schwarz criterion		-5.088903
Log likelihood	302.4630	F-statistic		1579.404
Durbin-Watson stat	2.405850	Prob(F-statistic)		0.000000

HENRIKSSON AND MERTON REGRESSION Table 2

Dependent Variable: EX_RET_FUND
 Method: Least Squares
 Date: 10/01/08 Time: 15:44
 Sample: 1999M01 2008M09
 Included observations: 117

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DUMMY1*EX_RET_MK	1.058612	0.057585	18.38335	0.0000
DUMMY2*EX_RET_MK	0.971393	0.040198	24.16515	0.0000
C	-0.001051	0.002700	-0.389195	0.6979
R-squared	0.932780	Mean dependent var	9.01E-05	
Adjusted R-squared	0.931601	S.D. dependent var	0.070318	
S.E. of regression	0.018390	Akaike info criterion	-5.128661	
Sum squared resid	0.038556	Schwarz criterion	-5.057836	
Log likelihood	303.0267	F-statistic	790.9658	
Durbin-Watson stat	2.478246	Prob(F-statistic)	0.000000	

Not going into more detail with Jensen's model we now analyze the results of our main model, Henriksson and Merton (1981). We modelled the min/max-operators by using 2 dummy variables:

$$\text{Dummy1} = \begin{cases} 1 & \text{if } R_{mt} > R_{ft} \\ 0 & \text{otherwise} \end{cases}$$

$$\text{Dummy2} = \begin{cases} 0 & \text{otherwise} \\ 1 & \text{if } R_{mt} < R_{ft} \\ 0 & \text{otherwise} \end{cases}$$

and so estimated the regression, from Table 2.

$$R_{pt} - R_{ft} = -0.001051 + 1.058612*(R_{mt} - R_{ft})*\text{Dummy1} + 0.971393*(R_{mt} - R_{ft})*\text{Dummy2}$$

(0.002700) (0.057585) (0.040198)

Having estimated this regression, we checked if the OLS assumptions hold for our model.

- $E[u_t] = 0$; this is true as we have an intercept in the regression - α_T .

- $\text{Var}(u_t) = \sigma^2 < \infty$; the White test X^2 probability of 0.942216 shows that we cannot reject the H_0 : Homoskedastic behavior – therefore we have no evidence for heteroskedasticity (Table 3):

WHITE TEST

Table 3

White Heteroskedasticity Test:

F-statistic	0.185879	Prob. F(4,112)	0.945326
Obs*R-squared	0.771585	Prob. Chi-Square(4)	0.942216

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 10/01/08 Time: 16:30

Sample: 1999M01 2008M09

Included observations: 117

Collinear test regressors dropped from specification

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.000338	0.000119	2.845771	0.0053
DUMMY1*EX_RET_MK	-0.002183	0.004873	-0.448051	0.6550
(DUMMY1*EX_RET_MK)^2	0.024778	0.037938	0.653120	0.5150
DUMMY2*EX_RET_MK	-0.000528	0.003249	-0.162591	0.8711
(DUMMY2*EX_RET_MK)^2	-0.003310	0.014143	-0.234044	0.8154
R-squared	0.006595	Mean dependent var		0.000330
Adjusted R-squared	-0.028884	S.D. dependent var		0.000543
S.E. of regression	0.000551	Akaike info criterion		-12.12874
Sum squared resid	3.40E-05	Schwarz criterion		-12.01070
Log likelihood	714.5316	F-statistic		0.185879
Durbin-Watson stat	1.764434	Prob(F-statistic)		0.945326

- $Cov(u_i, u_j) = 0$; at first we ran the Durbin Watson test. The result was inconclusive, because the DW test statistic was in the range of 2.42 ($4-d_U$) to 2.50 ($4-d_L$) – see Table 2. Then we ran the Breusch-Godfrey test with 12 lags because we used monthly data and

any autocorrelation can appear within one year and therefore should be tested. We could not reject the H_0 : no autocorrelation at a 5% significance level because of a X^2 probability of 0.062404, as presented in Table 4:

BREUSCH GODFREY TEST

Table 4

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.779658	Prob. F(12,102)	0.061351
Obs*R-squared	20.25554	Prob. Chi-Square(12)	0.062404

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 10/01/08 Time: 16:41

Sample: 1999M01 2008M09

Included observations: 117

Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DUMMY1*EX_RET_MK	0.036864	0.059640	0.618107	0.5379
DUMMY2*EX_RET_MK	-0.040651	0.041147	-0.987935	0.3255
C	-0.002088	0.002740	-0.761772	0.4480
RESID(-1)	-0.284617	0.103246	-2.756682	0.0069
RESID(-2)	0.167414	0.104053	1.608923	0.1107
RESID(-3)	0.163594	0.108813	1.503440	0.1358
RESID(-4)	-0.023717	0.110832	-0.213993	0.8310
RESID(-5)	-0.090872	0.111935	-0.811823	0.4188
RESID(-6)	0.052236	0.109575	0.476714	0.6346
RESID(-7)	0.175785	0.112971	1.556024	0.1228
RESID(-8)	0.010875	0.111965	0.097131	0.9228
RESID(-9)	-0.007293	0.113605	-0.064200	0.9489
RESID(-10)	-0.196191	0.112493	-1.744020	0.0842
RESID(-11)	0.030314	0.113992	0.265928	0.7908
RESID(-12)	0.132385	0.110658	1.196346	0.2343
R-squared	0.173124	Mean dependent var	7.12E-19	
Adjusted R-squared	0.059632	S.D. dependent var	0.018231	
S.E. of regression	0.017679	Akaike info criterion	-5.113633	
Sum squared resid	0.031881	Schwarz criterion	-4.759509	
Log likelihood	314.1476	F-statistic	1.525421	
Durbin-Watson stat	1.914872	Prob(F-statistic)	0.115185	

1. x_t are non-stochastic, but discrete observations

2. u_t normal distributed $\sim N(0, \sigma^2)$; therefore we ran the Jarque-Bera normality test. We could not reject the H_0 : normally

distributed residuals at a 5% significance level because of the 0.180883 probability. The test is presented in the chart from Figure 1.

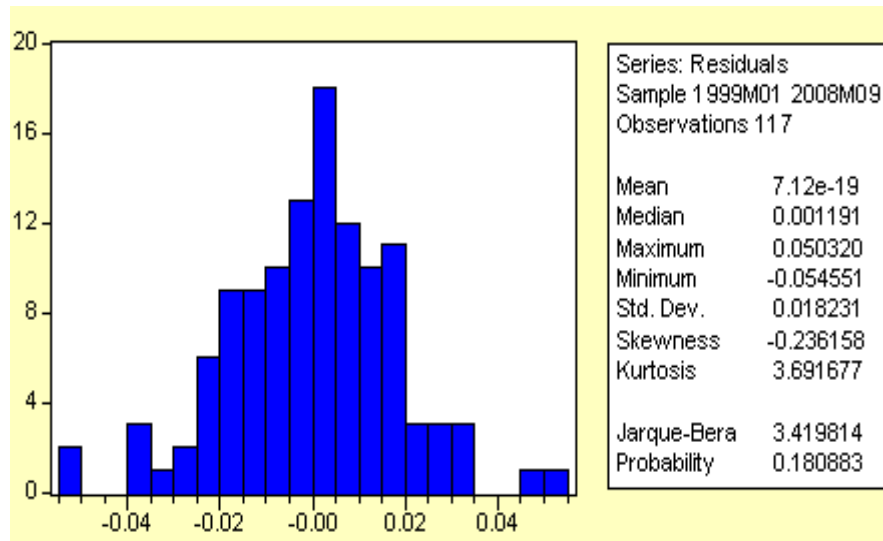


Fig. 1. JARQUE-BERA Normality Test

Further assumptions for correct estimation:

1. Multi-co-linearity; the correlation-matrix shows a coefficient of 0.423517 which is below the critical value of 0.8 for near multi-co-linearity. Therefore we conclude no multi-co-linearity.

2. Linearity; we conducted the Ramsey RESET test with two fitted variables and could not reject the H_0 : linearity (t probabilities for fitted values 0.5566 and 0.1771), presented in Table 5.

RAMSEY RESET TEST

Table 5

Ramsey RESET Test:

F-statistic	1.221915	Prob. F(2,112)	0.298563
Log likelihood ratio	2.525476	Prob. Chi-Square(2)	0.282878

Test Equation:

Dependent Variable: EX_RET_FUND

Method: Least Squares

Date: 10/01/08 Time: 16:58

Sample: 1999M01 2008M09

Included observations: 117

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DUMMY1*EX_RET_MK	1.143336	0.152148	7.514614	0.0000
DUMMY2*EX_RET_MK	0.978680	0.120932	8.092815	0.0000
C	-0.001518	0.004073	-0.372612	0.7101
FITTED^2	-0.474876	0.805379	-0.589630	0.5566
FITTED^3	-2.703209	1.989961	-1.358423	0.1771

R-squared	0.934216	Mean dependent var	9.01E-05
Adjusted R-squared	0.931866	S.D. dependent var	0.070318
S.E. of regression	0.018355	Akaike info criterion	-5.116058
Sum squared resid	0.037733	Schwarz criterion	-4.998016
Log likelihood	304.2894	F-statistic	397.6336
Durbin-Watson stat	2.487544	Prob(F-statistic)	0.000000

3. Parameter Stability; we considered the Chow break point test and the Predictive Failure test, however the excess returns of the fund graph show no obvious break points, as in the chart from Figure 2.

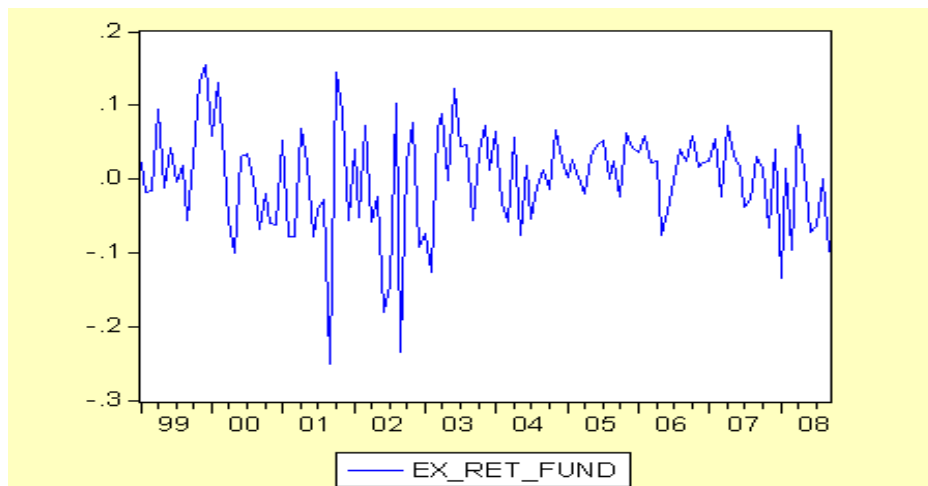


Fig. 2 *Excess Returns of the Fund*

Coming back to our original regression, we conducted F- and t-tests. The null hypotheses (H_0 : all coefficients are zero) of the F-test is rejected.

WALD TEST Table 6

Wald Test:
Equation: HENRIK_REQ

Test Statistic	Value	df	Probability
F-statistic	1.103656	(1, 114)	0.2957
Chi-square	1.103656	1	0.2935

Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(1) - C(2)	0.087219	0.083022

Restrictions are linear in coefficients.

Running the t-test shows that the β_u and β_d are highly significant, while α_T is statistically not significant, as shown in Table 6.

Finally we conducted the Wald test to determine whether β_u and β_d are statistically different from each other ($H_0: \beta_u - \beta_d = 0$). Taking a look at the test

statistics in Table 6, we failed to reject the null hypotheses at the 5% significance level, since the X^2 probability is 0.2935.

4. Conclusion

We found that the overall performance ability of the fund manager, as estimated in the α_j by the Jensen (1968) model is positive. However this coefficient is statistically insignificant, which means the fund is, in a statistical sense, not over-performing the market.

Separating the timing and selection abilities by using the Henriksson and Merton (1984) model, we found β_u greater than β_d , which could let us conclude that the fund manager has market timing ability.

However, we did not find the betas to be significantly different from each other. Therefore the fund manager is a poor market-timer. To evaluate his selection ability we took a look at the α_T of the regression. It is negative and not significantly different from zero. That shows the fund manager has no selection ability either.

A possible explanation for these results is the structure of the fund. The DWS Deutsche Aktien Typ O fund consists mainly of German blue chips and therefore is highly correlated with the German DAX

30 PERFORMANCE INDEX. This is also shown in the high R^2 (approximately 0.93 for both analysed models). That is one possible reason why it is difficult to over-perform the market.

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Notes

1. <http://www.dws.de/DE/facts/FactSheetHoldings.aspx?FundId=286>

TOURISM

THE IMPORTANCE OF THE QUALITY OF ENVIRONMENTAL FACTORS ON TOURISM PRODUCTS. AN APPLICATION OF THE KANO MODEL

Ruxandra-Gabriela ALBU ¹

Abstract: *Quality evaluation in the field of tourism services is given by the result of the comparison between what the customer expected and what he or she really received. If there is a lack of correspondence between tourists' expectations and the managerial understanding of these expectations, the quality of the tourism service will be mediocre. The Quality Model, elaborated by the Japanese professor Noriaki Kano in the '80s, is based on the concept of product quality and offers a framework which highlights differences among standard and personalised offers according to the way in which customers do or do not express their wishes and expectations related to the offered product. This model can be applied in the tourism field, for example for analysing the relationship between tourism and environment.*

Keywords: *tourism, management, quality evaluation, attributes, environment*

The adoption of a quality management system by an organization dealing with tourism is a strategic decision with long-term implications that would bring it advantages, such as: increasing customer satisfaction, decreasing costs, enhancing competition, strengthening employees' responsibility and satisfaction as regards their work.

Tourism must be seen as a "horizontal" activity, implying a real coordination among different economic, social and cultural activities. Being connected with all the major economic sectors, tourism must be considered a powerful economic catalyst. Anyway, regional tourism can be threatened by globalization, so it must be used as a means of conserving regional identity.

The concept of "quality" has undertaken a long way starting with "inspection", passing through the stages of "control and assurance"; today it has taken its present form of "total quality" [4].

In the specialty literature, several definitions of quality have been provided. Thus, it can be considered: "customer satisfaction" or the skill of being in accordance to the use. Juran considers that a quality good or service is the one having "fitness for use" [6].

ISO 9000 standards define quality as "the degree to which a set of intrinsic features fulfil the demands" [ISO 9000:2000].

Feigenbaum defines quality as "all the market, design, production or maintenance features of a compound product or service,

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through which the product or service used responds to customer expectations”.

Quality evaluation, especially in the field of tourism services, is given by the result of the comparison between what the customer expected and what he or she really received. If there is a lack of correspondence between tourists' expectations and the managerial understanding of these expectations, the quality of the tourism service will be mediocre [5].

The Quality Model, elaborated by the Japanese professor Noriaki Kano in the '80s, based on the concept of product quality and offering a framework which highlights differences among standard and personalised offers according to the way in which customers do or do not express their wishes and expectations related to the offered product, can be applied in tourism, too.

The features – attributes of the product are divided by Kano into three groups [3]: “*basic attributes*” that are taken for granted from the offered product or service. These basic features are not given a particular importance by the client, who takes their existence for granted. „*Performance attributes*” are features – attributes expected and demanded by customers, being directly connected to their degree of satisfaction and “*excitement*” representing features – attributes unexpressed, but offered in the demanded product or service, producing a high degree of satisfaction to the client, many times bringing out wishes and latent needs, unknown even to the customer.

In the model presented in Figure 1 and Figure 2, we will replace the terms features – attributes with that of services, because of the particularities of the touristic product.

A competitive touristic product must have all the basic services, maximize the

offer of expected and demanded services and include in the offer as many unexpressed and unexpected services as possible.

We can state that in tourism there are many other services (attributes) that cannot be included in the three categories proposed by Kano because of the complexity of this type of product.

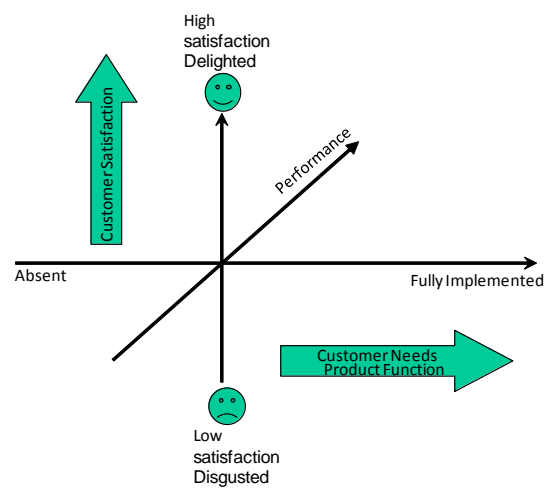
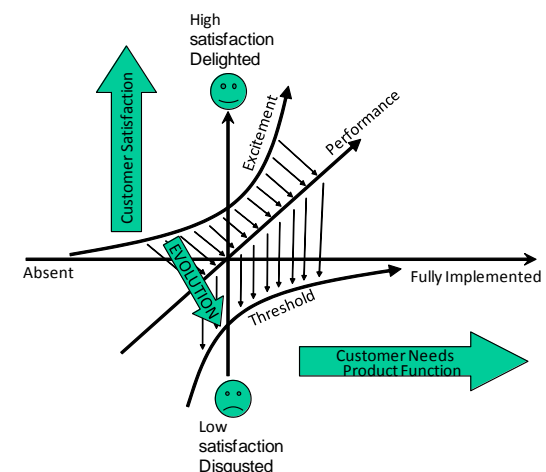


Fig. 1



Source: Centre of Quality Management Journal, Special issue on Kano's methods for understanding customer-defined quality, Vol 2, No. 4, 1993

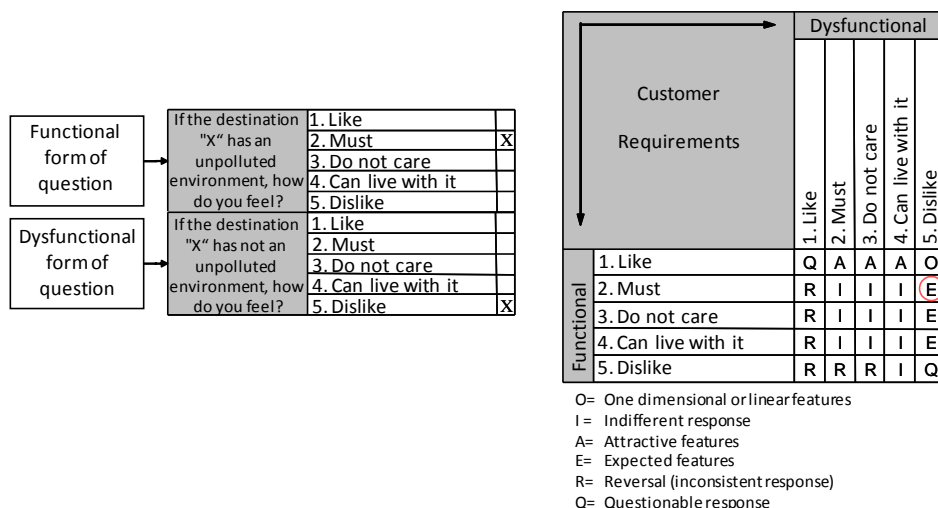
Fig. 2. *Kano's model*

Figure 1 shows the connection between the way in which customer demands are satisfied and the degree to which they have been satisfied. Customer satisfaction increases directly proportional with the number and the quality of the fulfilled demands. Similarly, the lack of preoccupation with satisfying customer demands leads to losing them. It is known that gaining a new type of client is five times more expensive than maintaining an existing one. Moreover, an unsatisfied client can represent negative advertisement of “bouche à oreille” type [7] for other people, thus significantly affecting the company’s image. Services quality is defined as the difference between customer expectations regarding that service and the perception of service quality after its use. Thus, one can speak of quality only when this difference is negative, more precisely when results exceed customer expectations. Their expectations are influenced by advertisement, personal needs, previous experience and the efficiency of the promotional techniques the company used.

As presented in Figure 2, the evolution

of services offer, as a constitutive part of the touristic product, goes through three different stages according to the features of the tourism offer and the way in which tourists express their expectations. Gradually, apart from the standard offer “directly expressed and expected” by customers (fig. 1), there are also new services, offered as bonuses, that customers have not demanded, but that offer them satisfaction – “additional unexpressed and un-demanded services (bonuses)”. The way in which Kano forecasts the evolution of the offer with “basic expected and unexpressed services” is really interesting. Those services that used to be “directly expressed and expected” in the past are now taken for granted, more precisely they are “basic expected and unexpressed services”. In the same manner, “additional services (bonuses)” become “directly expressed and expected services”.

A relatively simple use of Kano’s model is to conduct research among customers, who are asked to answer two simple questions regarding the features of the tourism product offered [1].



Source: Jacobs, R., *Evaluating Satisfaction with Media Products and Services: An Attitude Based Approach*, European Media Management, Winter 1999.

<http://www.tukkk.fi/mediagroup/emmr/Previous%20Issues/Satisfaction.htm>

Fig. 3. Kano's model applied in tourism

- How would you feel if the touristic product had the “X” feature?
- How would you feel if the touristic product did not have the “X” feature?

Customers can choose one of the following five alternatives:

1. *I would like it;*
2. *It's a must;*
3. *Indifferent;*
4. *I could get used without it, too;*
5. *I wouldn't like it.*

According to customers' answers, we can determine where this “X” feature ranks among the three categories proposed by Kano.

fig. 3 shows a possible way to apply Kano's model in tourism: the researched issue would be: “the importance of the quality of environmental factors (lack of pollution) in the touristic product offered”. As one can observe from Figure 3, “the quality of environmental factors” represents a basic feature of the touristic product – *the “basic expected and unexpressed features (services)”*.

Tourism also envisages an ecological purpose by including measures of preserving the environment and the fundamental values of human existence into tourism activities: water, air, flora, fauna etc., by contributing to the preservation of fundamental values that characterize local communities where it takes place.

The relation between tourism and environment has a significant importance,

environment protection and conservation being considered the primordial conditions of tourism development. Any uncontrolled intervention can bring damages to the tourism potential, finally becoming a destructive factor for all the stakeholders in this field.

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VISITOR MANAGEMENT, A TOOL FOR SUSTAINABLE TOURISM DEVELOPMENT IN PROTECTED AREAS

A.N. CANDREA¹ A. ISPAS²

Abstract: *The article analyzes visitor management techniques as a way to develop sustainable tourism in protected areas. Visitor management is an important tool in recreational and protected areas, as increasing use levels can negatively impact the quality of recreational experience as well as natural resources. To meet the requirements of both nature and visitors, a prudent and careful management is necessary. In order to manage protected areas within acceptable ecological and social carrying capacities, tourism planners need to monitor visitor numbers, leisure activities and behaviour and understand expectations and motivations.*

Key words: *sustainable tourism, protected areas, visitor management*

1. Introduction

Tourism is one of the world's fastest growing industries and its global impacts are immense and highly complex. Given that a high percentage of tourism involves visits to naturally and culturally distinguished sites, there are clearly major opportunities for investing in the maintenance of biological resources.

Tourism can help the sustainable management of protected areas, as a market-based alternative catering to the growing number of discriminating travelers trying to find, understand and enjoy a natural environment.

Tourism can help the sustainable management of protected areas, as a market-based alternative catering to the growing number of discriminating travelers trying to find, understand and

enjoy a natural environment [3]. Tourism can support the protection of natural resources, as local residents realize the value of their asset and want to preserve it.

At the same time, our global heritage of living species is threatened as never before, as the protected areas that harbor so much of our biodiversity are exposed to the pressures of unsustainable development. The precautionary approach urges us to be especially concerned about tourism in protected areas, given the risk of damage and destruction to this unique natural resource.

Tourism is a major management issue for many protected areas as the presence and actions of visitors can present serious problems for biodiversity conservation. Therefore tourism has to be managed with care and site managers must assess and

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balance the costs and benefits of tourism in protected areas. It is also important to find ways for local people and communities to benefit from tourism linked to conservation, as this helps to demonstrate the economic value of the natural resources being conserved.

2. Sustainable Tourism Development in Protected Areas

According to the World Tourism Organization [11] sustainable tourism should:

- 1) Make optimal use of environmental resources that constitute a key element in tourism development, maintaining essential ecological processes and helping to conserve natural heritage and biodiversity.
- 2) Respect the socio-cultural authenticity of host communities, conserve their built and living cultural heritage and traditional values, and contribute to inter-cultural understanding and tolerance.
- 3) Ensure viable, long-term economic operations, providing socio-economic benefits to all stakeholders that are fairly distributed, including stable employment and income-earning opportunities and social services to host communities, and contributing to poverty alleviation.

Sustainable tourism development guidelines and management practices are applicable to all forms of tourism in all types of destinations, including mass tourism and the various niche tourism segments. Sustainability principles refer to the environmental, economic and socio-cultural aspects of tourism development, and a suitable balance must be established

between these three dimensions to guarantee its long-term sustainability.

Sustainable tourism development requires the informed participation of all relevant stakeholders, as well as strong political leadership to ensure wide participation and consensus building. Achieving sustainable tourism is a continuous process and it requires constant monitoring of impacts, introducing the necessary preventive and/or corrective measures whenever necessary. Sustainable tourism should also maintain a high level of tourist satisfaction and ensure a meaningful experience to the tourists, raising their awareness about sustainability issues and promoting sustainable tourism practices amongst them.

Although the relationship between tourism and protected areas is complex and sometimes adversarial, tourism is always a critical component to consider in the establishment and management of protected areas.

The definition of a protected area adopted by The International Union for the Conservation of Nature (IUCN) is: "An area of land and/or sea especially dedicated to the protection and maintenance of biological diversity, and of natural and associated cultural resources, and managed through legal or other effective means" [9].

Tourism can degrade natural areas, but can also be a reason to protect nature and culture. It can fund nature management and give nature a direct economic value, providing an incentive for local inhabitants and governments to protect nature [10].

By establishing closer links with the tourism sector, protected areas staff can learn the realities of tourist demands and more effectively meet the requirements of tourism companies. Stronger relationships

between the protected areas staff and the tourism sector can also encourage a greater understanding of conservation priorities amongst tourism companies.

Although the idea of and the need for sustainable tourism have been accepted for some years, and despite the existence of many good examples of activities in this field, the ever increasing challenges facing protected areas showed the necessity of making a real commitment through the development of a Charter.

In 1995 EUROPARC took the initiative to set up the European Charter for Sustainable Tourism in Protected Areas, with a project funded by the EU's LIFE programme and led by the Fédération des Parcs naturels régionaux de France on behalf of EUROPARC.

Ten European pilot parks together with representatives of the tourism industry and NGOs active in the tourism and environment fields contributed their combined experience and wisdom and outlined their needs. A final version of the Charter was published in 2000, with 21 parks from Austria, France, Germany, Italy, Portugal, Spain and the UK signing a letter of intent.

The Charter commits signatories to implementing a local strategy for 'sustainable tourism' defined as [5]: "any form of development, management or tourist activity which ensures the long-term protection and preservation of natural, cultural and social resources and contributes in a positive and equitable manner to the economic development and well-being of individuals living, working or staying in protected areas."

Developing policies and laws related to sustainable tourism solidifies and acknowledges a desire to maintain a high

level of commitment to achieving sustainable tourism development. Policies that recognize tourism as a valuable element of protected area management provide guidance to the managers of these areas.

Planning guidelines applicable to government and managers of protected areas include [1]:

- Develop and implement effective land-use planning measures that maximize the potential environmental and economic benefits of travel and tourism while minimizing potential environmental or cultural damage.
- Tourism activities should be planned at the appropriate level with a view to integrate socio-economic, cultural and environmental considerations at all levels.
- Planning for tourism development must be integrated with other planning efforts at the site, regional and national levels, applying tools such as strategic environmental assessment and integrated resource management.

Poor planning and management of tourism development in and around protected areas can have devastating, long-lasting and sometimes irreversible effects. Non-sustainable tourism is negative for conservation goals, for local communities and for societies in general [2].

3. Visitor Management in Protected Areas

Managing tourism in a sustainable way however requires both a long-term perspective and careful consideration of the many ways in which tourist activities and environment interrelate. What is needed is a systematic approach and a tool kit for planning in order to provide the

necessary resources for visitor management. Therefore it is important to provide standardized data and collect them as early as possible.

Increasing recreational use of national parks and protected areas can impact natural and cultural resources and the quality of the visitor experience. Determining how much recreational use can ultimately be accommodated in a park or protected area is often addressed through the concept of carrying capacity [7].

From a management perspective, visitor impacts are significant because they directly reflect management success in meeting two primary mandates: resource protection and recreation provision [8]. In this respect visitor impacts need to be managed since:

1. Visitor use can negatively affect vegetation, soil, water and wildlife resources as well as the quality of visitor experiences.
2. Visitor crowding and conflict can reduce the quality of visitor experiences.
3. Environmental attributes such as vegetation and soil resistance and resiliency, influence the type and severity of visitor resource impacts.
4. The use/impact relationship limits the effectiveness of visitor use reduction and dispersal strategies.
5. Decision-making frameworks can provide an explicit and flexible means of managing visitor impacts.
6. Indirect management strategies are often less costly to implement and are preferred by visitors.

Visitor management is an administrative action oriented towards maintaining the quality of park resources and visitor

experiences [4]. In many but not all situations management tends to focus on the negative impacts resulting from unrestrained visitor activity. In other situations management acts assertively to create and maintain opportunities for visitors to view, experience, learn about and appreciate their natural and cultural heritage.

Broadly speaking there are four strategic approaches which can be used to reduce the negative impacts of visitors on protected areas [3]:

1. *Managing the supply* of tourism or visitor opportunities, e.g. by increasing the space available or the time available to accommodate more use;

2. *Managing the demand* for visitation, e.g. through restrictions of length of stay, the total numbers, or type of use;

3. *Managing the resource* capabilities to handle use, e.g. through hardening the site or specific locations, or developing facilities; and

4. *Managing the impact* of use, e.g. reducing the negative impact of use by modifying the type of use, or dispersing or concentrating use.

The visitor management techniques available to managers of natural resources include [6]:

- Regulating access by area (zoning);
- Regulating visitation by visitor type (through pricing)
- Implementing entry or user fees;
- Providing interpretation programmes and facilities;
- Regulating visitor behavior (codes of conduct);
- Concentrating on allowing accredited organizations to bring visitors to the site.

Sustainable tourism practice within protected areas is a long-term commitment. But while it is important to think long-term, it is also necessary to set realistic short and mid-term goals. Individuals, businesses and organizations must be aware that benefits are long-term, and should not expect to experience them immediately after sustainable practices are implemented. In practice, only a small portion of benefits will arise quickly; most will depend upon many years of continued effort [3].

4. Conclusions

Protected areas normally achieve recognition and enhanced protection when sufficient numbers of people visit them, appreciate them, and take political action to assure their survival. Park tourism is a critical component of protected area establishment and management.

The big challenge for nature management is to preserve areas with minimal human impact, in particular by leisure activities, while at the same time, zones must be found to satisfy recreational and educational needs.

The development of visitor management plans as part of the management of protected and recreational areas is widely accepted by park managers and international organizations as a way of reducing conflicts. Establishing such visitor flow concepts requires accurate knowledge of visitor numbers and activities along with information on their needs and motivations.

Managing tourism in a sustainable way however requires both a long-term perspective and careful consideration of the many ways in which tourism activities and environment interrelate.

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KNOWLEDGE MAP AN IMPORTANT TOOL OF KNOWLEDGE MANAGEMENT IN TOURIST DESTINATIONS

Oana ŞEITAN¹

Abstract: *The purpose of this paper is to explore and compare the possible knowledge map structures by types of tourist destinations and discuss knowledge mapping processes in the destination knowledge management system. This will be possible by comparing knowledge maps of four destination types (city, mountain, historic and seaside resort) and suggest different mapping schemes. Each destination has unique knowledge needs, therefore, the knowledge map structure should be built to meet the needs and preferences of destination knowledge users.*

Key words: *knowledge map, city tourism, mountain tourism.*

1. Introduction

Knowledge management is an important tool to support destination management because it is connected with the ability to create values and to generate competitive advantage. The knowledge management process provides knowledge in a focused, relevant, cost-effective and timely manner for destination success with the highest level of professional knowledge. Capturing and subsequent dissemination of knowledge at an appropriate time to the individual who needs it with less search cost is the essence of knowledge management. In general, knowledge management of tourist destinations includes acquisition, explanation and communication of mission-specific professional expertise in a manner that is focused and relevant to tourist destination managers.

Knowledge maps differ on destinations due to the differences in knowledge requirement. Also, similar knowledge can

be organized uniquely to cater for the needs of destination managers of each destination. The map reflects experiences, methods, processes and judgments of the map creator. Since destination knowledge about the same object can be represented differently depending on the context, there is need to develop a common way of constructing and maintaining destination knowledge in a visual form.

Knowledge refers to meaning and understanding that results from processing information [1] in ways that are actionable. Knowledge is contextual, relevant, actionable and can be used to solve problems. This definition implies that knowledge in knowledge management perspectives has been defined in a pragmatic way. Knowledge can be classified as (a) declarative knowledge and (b) procedural knowledge [3]. Declarative knowledge is factual knowledge of the industry such as data about tourist markets, environment, tourist behavior, competition

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and details of a destination. Procedural knowledge includes the methodology used such as tourism planning models, communication tools, forecasting and quantitative methods.

Implementing a knowledge management methodology generally follows seven steps: identify the problem, prepare the change, create the team to work on the project, map the knowledge, create a feedback mechanism to report any difficulties, define the building block for a knowledge management system and integrate existing information systems.

In the practice of knowledge management, knowledge mapping provides a framework for visualizing knowledge that can be easily examined, refined and shared by non-expert knowledge users. A knowledge map can be used as an interactive tool that links different conceptualizations of the word [2].

Knowledge mapping assists to find key sources conveniently and helps define constraints of knowledge creation and flows. Since the map increases convenience in knowledge finding, knowledge reuse is encouraged. As a result, costs for knowledge reinvention, search time and acquisition are reduced. Important expertise is more visible in the map and knowledge sharing is induced and increased. Consequently, the burden on experts to help staff find critical knowledge is reduced and customer response, decision-making and problem-solving processes are improved by providing access to applicable knowledge.

There can be many criteria to consider when preparing a knowledge map. Examples of criteria may include knowledge identification in terms of origin, structure and usefulness of knowledge. More specifically, a

knowledge map should be considered in terms of location, ownership, validity, timeliness, domain, sensitivity, access rights, storage medium, use statistics, medium and channels used.

To build knowledge maps, extensive research and communication for various stakeholders should be performed in relation to issues, processes, organization culture, knowledge base and knowledge transferring and sharing procedures. The actual knowledge does not have a static structure but is dynamically constructed by identifying and indexing pieces of information or knowledge components depending on the contexts [2]. Knowledge mapping tasks should be an ongoing process and must be updated and maintained in order to be useful.

The knowledge mapping process can be organized using location, organization charts, job functions and/or task teams. The destination knowledge mapping process includes identifying knowledge requirements, conducting a knowledge audit, defining information sources to use, defining processes, mapping the process in detail and finding tasks by processes.

2. Research Question and Data Collection Method

Knowledge maps could be unique by destination types in terms of context and structure; therefore, the research question is “How do knowledge maps differ by destination types?” To answer this research problem, open-ended interview questions were analyzed in the current study as an application of knowledge mapping.

Data were collected from four distinct tourist destinations in Romania to compare the knowledge map scheme. Bucharest was chosen as a city tourism destination. Braşov was categorized as a mountain region, Sighişoara as a historical site and Constanţa as a seaside resort destination.

For each destination, two persons, who were majoring in tourism and familiar with the destination, were assigned for the survey. Potential respondents identified by the researchers from various sources were contacted in advance and surveys were conducted subsequently. Study samples were chosen from personnel currently employed in the hospitality, tourism and related fields (such as resorts, hotels, travel agencies, government and other entities related to tourism). Respondents resided in the study areas. During the data collection period, opened questionnaires were used to obtain clues of destination knowledge structure.

To initially generate structured knowledge maps based on knowledge requirements, questions included problems, causes, effects and related knowledge in the destination. More specifically, the research questionnaire included such questions as perceived problems in the destination, possible causes of the problem, what happened due to the problem and what knowledge will help to deal with the problem in the destination. In a one-page questionnaire, three problems could be identified and delineated by a respondent.

Most of the respondents were approached after their approval by phone to complete the questionnaire and the response rates were 96%. Contacting the 4% of the non-respondents in the time frame was not successful due to unexpected circumstances such as emergency meetings, family problems and customer relations issues.

3. Data Analysis and Results

To deal with the research question, knowledge maps of four destinations were built by considering relationships between concepts and frequencies of each concept

appearing in the data set (Figs. 1-4). Since the purpose of this study was to explore and compare the structures of knowledge maps of different destinations, relationships between concepts were the basis in structuring the map, rather than going into the further hierarchical structure of responses. Only concepts appearing more than three times in the open-ended interview questions were considered in the map. In addition to the author, two experts in tourism field verified the process and minor changes were made.

The research question was “How are knowledge maps different by destination type?” Although the maps can have different forms in structure, after reviewing responses from the data set, the major structure of the map was decided for comparative purposes.

The maps were segmented on the basis of destination management, (tourist) information, (tourist) products, transportation, (tourism) industry and support for tourism, although other segments (sub-titles) were allowed to appear on the map when uniqueness existed. Responses with frequencies of more than three were assigned in appropriate categories and appear on the map. As a result, four distinct destination knowledge maps were extracted (Figs. 1-4). The map figures reveal destinations eminent needs and important knowledge structure.

3.1 City Tourism, Bucharest

The knowledge map of Bucharest reveals the unique characteristics of city tourism (Fig.1) Respondents most frequently suggested that Bucharest should pay attention to traffic congestion, festivals and events and unique and creative tourist products.

For destination management, areas that need knowledge include promotion and information distribution, Internet pages

with correct and up to date information, visitor centers including booklets and facilities management including that of historical artifacts. Differentiation in image, language skills of guides and translation facilities were also the frequently mentioned knowledge that is needed in Bucharest.

Knowledge related to city tourism products with cultural and unique attractions including festivals and events, nightlife and performance facilities is needed so that tourists can see and experience the destination, including restaurants with diverse menus in different languages.

The knowledge to deal with traffic congestion, road signs with different languages, taxi and bus tours with different languages is also important to improve tourism in this type of destination. Additionally, knowing how to train employees is one of the important concerns for the tourism industry in Bucharest.

3.2. Mountain Tourism, Braşov

The mountain region knowledge map appears as (Fig.2), revealing the unique characteristics of mountain tourism. Respondents most frequently mentioned that the mountain region should pay more attention to knowledge related to accessibility to the mountainous region, promotion and information distribution, unique and interesting attractions and strategies for peak-and off-season periods.

Knowledge about destination promotion, information distribution including less-known or less-popular destinations and public transportation is also considered useful to manage mountain region tourism.

Mountain areas eagerly seek knowledge about peak season overcrowding and congestion and off-season product development and promotion with information distribution. Interesting unique

tourist product development for four-season use, including diverse festivals and events, is also a major concern of the Braşov region.

Knowledge to improve accessibility and connections to other destinations and attractions is important to overcome barriers imposed by mountains. Knowledge related to industry employee training is considered helpful to improve the service level of the destination. Knowledge about obtaining not only residents` support but also central government investments for the infrastructure was also felt to be for destination improvement.

3.3. Historical Tourism, Sighişoara

Sighişoara knowledge map the revealed characteristics of a historic site. Frequencies indicate that Sighişoara should consider long-term policy, strategy and a master plan, diverse distinct souvenir design, promotion, event and festivals connecting attractions, distinctive tourist products and responsiveness to changes in the market. Respondents wanted to see a clear tourism policy, strategy and a master plan and diverse distinct souvenir design, promotion, event and festivals, connecting attractions, distinctive tourist products and responsiveness to changes in the market. Respondents wanted to see a clear tourism policy, strategy and long-term master plan with little or no fluctuations. Knowledge management in historic Sighişoara should be concerned about promotion responding to market change and to achieve a greater number of long-term stays.

Historic site promotion, monument protection, diverse unique useful souvenir design and tourist product development programs are the major areas in which Sighişoara should build knowledge.

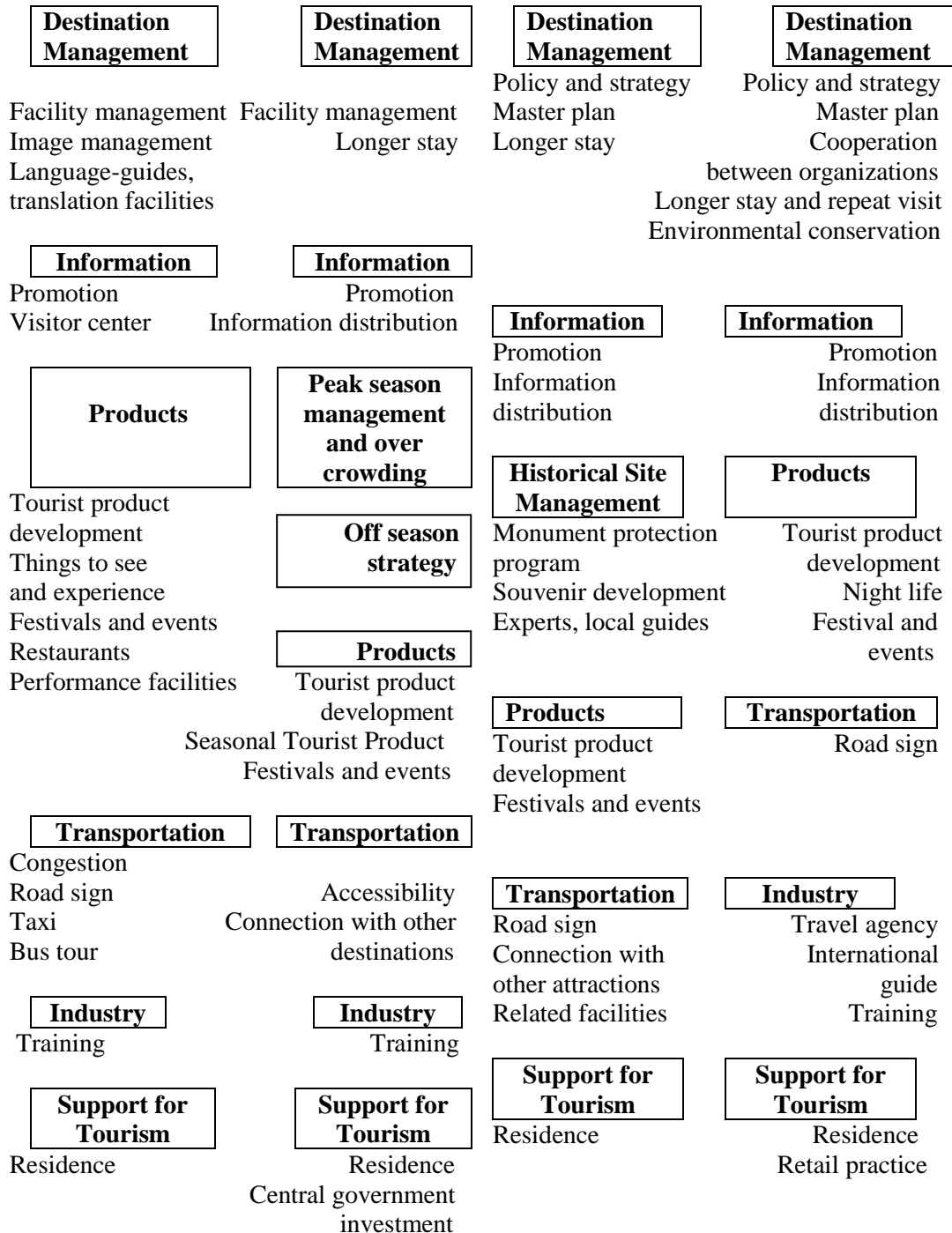


Fig.1. Knowledge map of city tourism , Bucharest

Fig.2. Knowledge map of mountain tourism, Braşov

Fig.3. Knowledge map of historical area, Sighisoara

Fig.4. Knowledge map of seaside tourism, Constanta

Knowledge for diverse unique tourist product development, including festivals and events, should be built and practiced. Road signs, public transportation connecting attractions and transportation-related facilities are a major concern to improve tourists' movement in Sighişoara. Resident's support is critical for tourism success in this region.

3.4. Resort seaside Constanţa

The knowledge map of Constanţa appears in Fig.4. New product and attraction development to provide positive experiences to tourists, responsiveness to tourists, responsiveness to market change, citizen support, travel agency operations, repeat visits, employee training, organizational cooperation and retail practices were the most frequently mentioned knowledge that is required to advance tourism in Constanţa.

Respondents suggested long-term commitment on policy, strategy and to a master plan. Also, they indicated that knowledge is needed in the area of cooperation between organizations so as not to cause waste due to duplication, promotion responding to the market change, current and accurate information distribution, achieving longer stays and environmental conservation and protection.

It was also felt that further knowledge should be sought in Constanţa so that tourist products can be further developed to provide interesting and unique experiences to tourists, including nightlife, diverse festivals and events. Respondents recommended road signs in more than one language. Industry knowledge for many small travel agencies, foreign language-speaking guides and Constanţa. Resident's support including those pertaining to retail practices is one important area in which destination knowledge should be accumulated.

4. Conclusion

This study contributes to the tourism field by exploring and comparing knowledge map structures by destination types. It was found that each destination has unique knowledge needs and, therefore, the knowledge map structure should be built to meet the needs and preferences of destination knowledge users. Various perspectives should be integrated in the knowledge map.

A knowledge map is a useful tool to define destination knowledge needs during the initial stage of knowledge management and assist knowledge user to find the desired knowledge with a low search cost. Destination knowledge management contributes in building competitive destinations by supporting timely decision-making and eliminating duplicate efforts to find the same knowledge. Shared knowledge grows exponentially and contributes to industry productivity. Therefore, knowledge in and about destinations should be shared.

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THE IMPACT OF NATIONAL MACRO-ENVIRONMENTAL VARIABLES ON TOURISM SERVICES CONSUMPTION IN ROMANIA

Elena UNTARU¹

Abstract: *The studies of consumers' demand represent the main objective of market research, the importance of these studies being emphasized in all marketing literature. In order to better understand the complex mechanisms of changing the needs for goods or services into demand, the marketing theory includes studying the consumer behaviour as regards tourism goods and services.*

Key words: *consumption, tourism goods and services, regression.*

As tourism developed, it has progressively built a market of its own that can be defined by factors with specific manifestation, i.e. economic, social, political, geographical and motivational factors. A general definition of the tourism market can be: the sphere of interference between economy, materialized by tourism production, and demand in tourism, materialized by consumption. Due to the fact that tourism production coincides with consumption, but not with the place of demand occurrence, the interference will progressively lead to the overlapping of the two components, by means of tourism consumption.

The economic-social factors that mark the demand and consumption in tourism are:

- *The income of the population* is, according to most of the specialists, the main condition of the manifestation of demand in tourism.

- *Price and tariff* are a distinguished major factor to stimulate tourism demand. The price has a multi-plan influence, as a result of the tourism activity complexity.

- *The offer in tourism* comprising attractions (natural and human made), equipment and labour force, also known as factorial appropriation, acts directly on tourism consumption and on the phenomenon per se.

- *Technical progress* is a different phenomenon with implications in developing tourism, and consequences on the degree of mobility of the population, facilitating travelling in the interest of tourism. It also acts on other phenomena, such as: urbanization, industrialization, environment quality, which have all an impact on tourism.

- Circulation in tourism also varies in correlation with the *demographic evolution*, and with the dynamics of the

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population and mutations in the structure on age, profession, environment, and so on. It is generally considered that the numeric increase of the population, as well as its rhythm of growth, influence the number of potential clients. Research in this direction shows that such a correlation is only possible in countries with a high economic level, where the material conditions for the inhabitants' journey can be ensured.

- *The urbanization process* determines a series of mutations in the structure of the population's needs. Besides numerous advantages visible in the economic development and increase in living standard, the urban concentration also has negative effects, such as the deterioration of the environment and the increase of nervous pressure and stress. This triggers the need to escape from great, unpolluted, urban agglomerations towards quiet places, for rest, recreation, fun. This need becomes manifest at the end of the week, or during holidays, and it stimulates the mobility of the population, contributing to the intensification of the tourists' circulation.
- *Spare time* is another determining factor of tourism, its evolutions setting conditions in the affirmation and manifestation of demand in tourism.

The progresses of economic development has lead to an increase in spare time, based on the diminution of the number of labour hours per day down to only 8 and even less, reduction of the working days, promoting more and more successfully part-time work, institutionalization, generalization and

increase in annual holidays, reduction of the total working time during life.

In the category of *psycho-social factors*, a greater influence is visible in tourism from areas such as *fashion, tradition, desire of knowledge, training*. For example, fashion plays an important part in choosing the destination for a holiday or the form of tourism (rural, ski, circuits etc.). Peoples' traditional holidays and festivals contribute to the attraction in the circuit of new segments of population and determine a new orientation of the flows. Even scientific, cultural or sports manifestations, or of other nature, stimulate the interest in travelling, amplifying circulation in tourism.

Governmental actions and facilities given by tourism operators have a significant influence on tourism, encouraging and promoting vacations. This category includes: legislation in tourism, which may limit or stimulate travelling, international agreements, alignment to the international hotel classification, customs formalities, and visa giving system, tour-operators, and travel agencies.

In what follows we aim at analyzing exactly the way national macro-environmental variables (the most important ones) influence tourism consumption in Romania, the selection of the most important components as well as the intensity of their impact on tourism consumption. In order to create such an analysis we use one of the statistical methods meant to emphasize the way a given variable is or is not influenced by other variables. This is a regression analysis.

The regression analysis is generally part of the multivariate methods group, and at the same time, an explicative method of

analysis due to the fact that a dependent variable is explained by means of other independent variables.

The resultant feature y will be the one that expresses tourism consumption (tourism revenue), and the most relevant factorial features x that express national level of economic development are: monthly average nominal income in comparable values (lei per employee); occupied population in Romania (absolute values); unemployment (%); inflation (%); investments (billion lei, constant prices); urban Romanian population (%); crime rate per 100,000 inhabitants; number of cars in circulation (absolute values); GDP per inhabitant in comparable values (thousand lei).

Mass social phenomena are very complex, depending on a large number of conditions and causes. The form of manifestation of these phenomena depends on the way in which the causes that

determine them are associated, meaning that more causes can lead to the appearance of a given effect. Most frequently, the way the resultant feature y varies expresses not only the influence of the determining factors (x), but mostly, the interaction between them. This interaction determines the degree of influence of different factors as regards the variation from one unit to another, and the general influence of a given factor to be revealed by means of another factor that is not part of the interdependence.

We shall analyze the existent connection between tourism revenues (as an indicator of tourism consumption) as resultant feature (or dependent variable) and the indicators of the macro-environmental factors mentioned above, as factorial features (or independent variables).

Using the SPSS program package, the results in the case of multiple regression are:

Table 1. The values of the determining coefficients
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,733 ^a	,537	,479	54,63489
2	,977 ^b	,955	,942	18,19573

a. Predictors: (Constant), Populatia ocupata a Romaniei in perioada 1996-2005

b. Predictors: (Constant), Populatia ocupata a Romaniei in perioada 1996-2005, Investitii (miliarde lei, preturi constante)

c. Dependent Variable: Incasari realizate in turism in perioada 1996-2005 (miliarde lei preturi constante)

In the above table, there is a brief presentation of the results of the two models. The first variable, the occupied population in Romania, explains about

54% of the variation of the dependent variable, while for the second model, when considering the variables *occupied population in Romania* and *investments in*

economy, the explained variation reaches 95%.

The summary of the model presented above emphasizes that the standard error of the estimation is 54.63 billion lei for the first model and 18.19 billion lei for the second model. It results that most of the total variance is generated by the regression equation. If we report the variance owed to the regression (SSR) and the total variance, we obtain the determination coefficient R^2 , emphasized in the table of determination coefficients values.

$$R^2 = \frac{SSR}{SST} = \frac{27688,25}{51568,02} = 0,537$$

In the first model, 53.7% of the total variance is explained by the regression model and 46.3% by unknown factors, the respective variance representing the error (SSE).

$$R^2 = \frac{SSR}{SST} = \frac{49250,43}{51568,02} = 0,955$$

In the second model 95.5% of the total variance is explained by the regression model and 4.5% by unknown factors.

The analysis of the variance for multiple regression will start from the following results:

Table 2 The ANOVA analysis of the variance
ANOVA^c

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27688,252	1	27688,252	9,276	,016 ^a
	Residual	23879,772	8	2984,971		
	Total	51568,024	9			
2	Regression	49250,432	2	24625,216	74,377	,000 ^b
	Residual	2317,592	7	331,085		
	Total	51568,024	9			

a. Predictors: (Constant), Populatia ocupata a Romaniei in perioada 1996-2005

b. Predictors: (Constant), Populatia ocupata a Romaniei in perioada 1996-2005, Investitii (miliarde lei, preturi constante)

c. Dependent Variable: Incasari realizate in turism in perioada 1996-2005 (miliarde lei preturi constante)

On the basis of the information above, a growth of F calculated is noticeable, from 9.27 to 74.38, which strengthens the

statistical significance of the regression explanation of the dependent variable variance.

Table 3 Regression coefficients

Coefficient^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-1053,287	429,725		-2,451	,040	-2044,235	-62,339
	Populatia ocupata a Romaniei in perioada 1996-2005	1,519E-04	,000	,733	3,046	,016	,000	,000
2	(Constant)	-1597,210	158,193		-10,097	,000	-1971,278	-1223,142
	Populatia ocupata a Romaniei in perioada 1996-2005	1,894E-04	,000	,913	10,979	,000	,000	,000
	Investitii (miliarde lei, preturi constante)	1,496	,185	,671	8,070	,000	1,058	1,934

a. Dependent Variable: Incasari realizate in turism in perioada 1996-2005 (miliarde lei preturi constante)

The information above contains the coefficients which the regression equations intercepts' values and the regression in the two phases are based on.

1. $\hat{y} = -1053,287 + 0,00015 * x_1$, where x_1 is the occupied population in Romania

2. $\hat{y} = -1597,21 + 0,00018 * x_1 + 1,49 * x_2$, where x_2 represents the investments in economy

The multiple correlations above aimed at analyzing the existent connection between tourism revenues in our counties between 1996 and 2005 and a series of macro-environmental variables that can have a significant influence on the volume of the revenues. Due to the strong interdependence between these independent variables, the model finally retains only two variables that have the highest influence on the revenues in tourism. These two variables are *occupied population in Romania* and *investments in the national economy*.

The occupied population in Romania has a great influence on the demand and consumption in tourism. Therefore, we

may conclude that the demand for tourism services is influenced by the **level of occupied population**. The fact that the model also retained the investments in economy leads us to the conclusion that demand and consumption in tourism are influenced by economic variables, related to the income and economic development.

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FINANCE AND ACCOUNTANCY

CONSIDERATIONS RELATED TO THE ANALYSIS OF THE FINANCIAL BALANCE OF THE TRADING COMPANY INTERLINK GROUP SRL

Carmen ANTON¹

Abstract: *The analysis of the financial balance in the company's activity implies the amortization of the resources with the needs, reflected as the functional balance sheet. The information transmitted by means of the accounting balance sheet as a synthesis document, is processed and grouped so that the view on the company appears from the functional point of view and the functional presentation of the balance sheet highlights financial, structural aspects that best respond to the requirements of the company managers. According to the functional point of view, the company is the economic entity whose essential objective is the production of goods and services, its activity implying the exertion of the production, trade, investments and financing functions. The paper aims at establishing a financial diagnosis allowing the appreciation of the conditions in which financial balance is made for the continuity of INTERLINK GROUP SRL company's activity and attaining the proposed intend.*

Key words: *accounting balance sheet, functional balance sheet, working capital, working capital needs, treasury.*

1. Introduction

The reflection of the company INTERLINK GROUP SRL financial balance is made through the financial analysis of the financial balance sheet. The balance sheet is the main instrument supplying information related to the company's activity. It reflects the financial position of the company at a certain time, generally at the end of the tax year [4] and it expresses, in monetary units, the value of the economic goods correlated with their financing sources, as well as with the obtained result.

The information related to the assets, liabilities and equities reflected within the balance sheet may be processed and

presented for the financial analysis in the form of: 1) - Financial balance sheet or the "liquidity" balance sheet and 2) - Functional balance sheet.

The functional balance sheet is the form that allows **the study of the financial balance** by means of three analysis variants: **horizontal analysis** (*working capital, working capital needs, treasury*), **vertical analysis** (by means of the structure ratios – *financial independence, the indebtness degree, the global indebtness degree*) and **the analysis by combined ratios** (*the ratios of solvency and liquidity and the ratios of the rotation of the component elements of the working capital needs*) [2]. The functional balance sheet

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presents the assets and liabilities elements of the company, at their gross value (their initial value), structured according to the description of the cycles of the companies' life, compared to its development, in the investment cycle (purchase, creation and selling of the fixed assets elements), in the exploitation cycle (development of the exploitation activity) and in the financing cycle (establishing the financial resources required for the company's development). To carry out the activity object for which it was established, the company deploys several economic functions: manufacture, trade, treasury, investments and financing.

First of all, the functional analysis includes the exploitation cycle that includes the following steps: raw materials supply and storage, manufacture, storage of the finite products, marketing and casing up from the sales. The assets positions (stocks, outstanding debts, clients, accrued expenses) strongly connected to the operations of the exploitation cycle, represent **the exploitation current assets**, that, in the normal activity must be financed from **the exploitation debts** (suppliers' and financial debts, prepaid incomes from exploitation). Both the current assets and the resources for their financing are cyclic.

The other positions of the balance sheet are regrouped in **current assets outside exploitation** and **debts outside exploitation**, and those related to the disposable funds are grouped in the **treasury assets** and **liabilities**. The investment and financing function completes the financial analysis by drafting the *financing chart* [6].

The functional balance sheet allows the determination of the *global net working capital* and *the working capital needs*, on the grounds of which we may appreciate the vulnerability of the company's financial structure by means of the *net*

treasury, and also the reflection of the interdependence between the financial structure of the company and the nature of its activity. Thus, the company is vulnerable if it appeals to financing its activity, mostly by contracting short term bank credits, aspect reflected by the comparison between the *variation of the working capital* and *the variation of the working capital needs*. The functional balance sheet allows the analysis of the company's activity from the perspective of its *activity continuity*. *The working capital needs* emphasize those cyclic needs that cannot be financially covered from temporary and permanent renewable resources within the same exploitation cycles and, for this reason, it is considered the most important ratio of the functional balance. Examining this ratio allows the quality analysis of the exploitation activity that needs to balance the cyclic needs from the cyclic capital resources and when these are not covered, the non financed part should be smaller or at least equal to the functional working capital. Therefore, when the exploitation activity shows deficiencies, we may reach a functional imbalance with consequences on the company's treasury. The study aims at establishing a *diagnosis on the financial situation of SC INTERLINK GROUP SRL*, from the point of view of the financial balance, of the company's liquidity and solvency, by means of the functional balance sheet.

2. The Analysis of the Financial Balance of SC INTERLINK GROUP SRL

To have an image on the evolution in time of the company's activity, we processed data from the accounting balance sheets afferent to the years 2008 and 2007 and transposed into functional balance sheets.

Accounting balance sheet on december 31ST 2008

[lei]

Table 1

ASSETS	GROSS	AMORTIZA TIONS AND ADJUSTMENTS	NET	LIABILITIES	
FIXED ASSETS	70,907,155	28,695,587	42,211,568	EQUITY	25,248,486
Establishment expenses				Shared capital	14,451,788
Research, development expenses	792,642	83,445	709,197	Reserves	9,103,484
Commercial fund				Profit and loss (loss)	1,773,872
Constructions	24,276,274	11,706,320	12,569,954	Profit distribution	
Equipments	35,220,464	16,905,822	18,314,642	Provisions	80,658
Equity investment and immobilized debts	10,617,775	-	10,617,775		
CURRENT ASSETS	22,359,192	644,092	21,715,100	PROVISIONS	32,199
Stocks	8,542,293	36,693	8,505,600	Risk provisions	32,199
Outstanding debts – clients	12,786,503	607,399	12,179,104		
Disposable funds	1,030,396		1,030,396		
REGULARIZA TION ASSETS	59,973		59,973	DEBTS	31,547,304
Prepaid expenses	59,974		59,974	Financial debts	9,920,323
				Suppliers	9,928,370
				Tax and social debts	11,698,611
				REGULARIZA TION ACCOUNTS	7,158,653
TOTAL ASSETS	93,326,321	29,339,679	63,986,642	TOTAL LIABILITIES	63,986,642

Functional balance sheet on december 31ST 2008

[lei]

Table 2

USES	AMOUNTS	RESOURCES	AMOUNTS
STABLE USES	70,907,155	PERMANENT (STABLE) RESOURCES	54,588,165
Gross non current assets out of which:	70,907,155	Own resources out of which:	54,588,165
Non current assets in leasing		Non current assets amortization	28,695,587
EXPLOITATION USES	21,328,796	Price differences	644,092

Stocks (gross values)	8,542,293		
Outstanding debts (gross values)	12,786,503		
USES OUT THE EXPLOITATION	59,974	<i>Foreign resources out of which:</i>	9,952,522
Prepaid expenses	59,974	Risks provisions	32,199
ASSETS TREASURY	1,030,396	Average and long term financial debts out of which: debts related to the non current assets in leasing	9,920,323
Disposable funds	1,030,396	Deferred taxes for provisions	
		EXPLOITATION RESOURCES	15,164,418
		Debts to the suppliers	9,928,370
		Tax debts	5,236,048
		RESOURCES OUTSIDE EXPLOITATION	7,158,653
		LIABILITIES TREASURY	6,462,563
TOTAL USES	93,326,321	TOTAL RESOURCES	93,326,321

A. Horizontal Analysis of the Functional Balance Sheet

Global net working capital = Stable resources – Stable uses =

=(Equity + Average and long term loans) – Non current assets (1)

$$\text{Working Capital} = (54588165 + 9952522) - 70907155 = -6366468$$

Working capital needs =Exploitation needs and outside the exploitation – Exploitation resources and outside the exploitation (2)

$$\text{WorkingCapitalNeeds} = (21328796 + 59974) - (15164418 + 7158653) = -934301$$

Net treasury =Assets Treasury – Liabilities Treasury (3)

$$\text{NetTreasury} = 1030396 - 6462563 = -5432167$$

B. Vertical Analysis of the Functional Balance Sheet (or by Structure Ratios)

Financial Independence= (4)

$$\frac{\text{Equity}}{\text{Total Liabilities}} = \frac{54588165}{93326321} * 100 = 58.49\%$$

Indebtness degree= (5)

$$\frac{\text{Financial Debts}}{\text{Liabilities Account}} = \frac{9920323}{54588165} * 100 = 18\%$$

Credits contribution to forming total resources (global indebttness degree)

$$\text{Global indebtness degree} = \frac{\text{Credits}}{\text{Total Liabilities}} = \frac{16382886}{93326321} * 100 = 17.55\% \quad (6)$$

C. Analysis through Combined Ratios

a. Ratios of solvency and liquidity

$$\text{General solvency} = \frac{\text{Total assets}}{\text{Foreign Capitals}} = \frac{93326321}{15164418} = 6.15 \quad (7)$$

$$\text{General liquidity} = \frac{\text{Current Assets}}{\text{Total Debts}} = \frac{21388770}{15164418} = 1.41 \quad (8)$$

This ratio reflects the possibility of the current patrimony components to transform in a short period of time into liquidities to comply with the due payment obligations. We appreciate a favorable global liquidity.

$$\text{Immediate liquidity} = \frac{\text{Disposable Funds}}{\text{Current Debts}} = \frac{1090396}{15164418} = 0.07 \quad (9)$$

The ratio's level must tend to a unity increase, resulting that the value of 0.07 is not satisfactory.

b. The ratios of the rotation of the component elements of the working capital needs

$$\text{Stocks rotation} = \frac{\text{Average Stock of The Tax Year}}{\text{Assets Account}} * 360 \text{ days} = \frac{7413254}{61810766} * 360 = 43 \text{ days}$$

$$\text{Rotation of the clients' credit} = \frac{\text{Average Clients Debts}}{\text{Assets Accounts} * 1.19} * 360 \text{ days} = \frac{7548885}{73554812} * 360 = 37 \text{ days} \quad (11)$$

$$\text{Rotation of the suppliers' credit} = \frac{\text{Average Suppliers Debts}}{\text{Purchases + External Services}} * 360 \text{ days} = \frac{8531299}{74238810} * 360 = 41 \text{ days} \quad (12)$$

$$\text{Global ratio of the working capital needs} = \frac{\text{Working Capital Needs}}{\text{Assets Accounts} * 1.19} = \frac{-934301}{73554812} = -0.013 \quad (13)$$

Accounting balance sheet on december 31ST 2007 [lei]

Table 3

ASSETS	GROSS	AMORTIZATIONS AND ADJUSTMENTS	NET	LIABILITIES	
FIXED ASSETS	50.356.622	25.496.356	24.860.266	EQUITY	20.970.714
Establishment expenses				Shared capital	14.451.788
Research, development expenses	792.642	4.653	787.989	Reserves	6.165.836
Commercial fund				Profit and loss (loss)	353.090
Constructions				Profit distribution	
Equipments	20.112.999	10.691.326	9.421.673	Provisions	
Equity	25.511.706	14.800.377	10.711.329		

investment and immobilized debts	3.939.275		3.939.275		
CURRENT ASSETS	23.655.275	1.389.525	22.265.750	PROVISIONS	44.147
Stocks	6.358.169	37.261	6.320.908	Risk provisions	44.147
Outstanding debts – clients	6.387.584	1.352.264	15.035.320		
Disposable funds	909.522		909.522		
REGULARIZATION ASSETS	73.121		73.121	DEBTS	18.902.837
Prepaid expenses	73.121		73.121	Financial debts	7.678.901
				Suppliers	7.134.228
				Tax and social debts	4.089.708
				REGULARIZATION ACCOUNTS	7.281.439
TOTAL ASSETS	74.085.018	26.885.881	47.199.137	TOTAL LIABILITIES	47.199.137

Functional balance sheet on december 31st 2007 [lei] Table 4

USES	AMOUNTS	RESOURCES	AMOUNTS
STABLE USES	50.356.622	PERMANENT (STABLE) RESOURCES	47.856.595
Gross non current assets out of which:	50.356.622	Own resources out of which:	47.856.595
Non current assets in leasing		Non current assets amortization	25.496.356
EXPLOITATION USES	22.745.753	Price differences	1.389.525
Stocks (gross values)	6.358.169		
Outstanding debts of the clients (gross values)	16.387.584		
USES OUTSIDE THE EXPLOITATION	73.121	<i>Foreign resources out of which:</i>	2.452.833
Prepaid expenses	73.121	Risks provisions	44.147
ASSETS TREASURY	909.522	Average and long term financial debts out of which: debts related to the non current assets in leasing	2.408.686
DISPOSABLE FUNDS	909.522	Deferred taxes for provisions	
		EXPLOITATION RESOURCES	11.831.465
		Debts to the suppliers	7.134.228
		Tax and social debts	4.697.237
		RESOURCES OUTSIDE EXPLOITATION	7.281.439
		LIABILITIES TREASURY	4.662.686
TOTAL USES	74.085.018	TOTAL RESOURCES	74.085.018

The formulas will be numbered with A.
Horizontal Analysis of the Functional Balance Sheet

Global net working capital = Stable resources – Stable uses =
= (Equity + Average and long term loans)
– Non current assets (1)
 $WorkingCapital = (47856595 + 2452833) - 50356622 = -47194$

Working capital needs = Exploitation needs and outside the exploitation
– Exploitation resources and outside the exploitation (2)
 $WorkingCapitalNeeds = (22745753 + 73121) - (11831465 + 7281439) = 3705970$

Net treasury = Assets Treasury – Liabilities Treasury (3)
 $NetTreasury = 909522 - 4662686 = -3753164$

B. Vertical Analysis of the Functional Balance Sheet (or by Structure Ratios)

Financial Independence= (4)
 $\frac{Equity}{TotalLiabilities} = \frac{47856595}{74085018} * 100 = 64.59\%$

Indebtness degree= (5)
 $\frac{FinancialDebts}{LiabilityAccount} = \frac{2408686}{47085018} * 100 = 5\%$

Credits contribution to forming total resources (global indebtness degree)

Global indebtness degree= (6)
 $\frac{Credits}{TotalLiabilities} = \frac{7071372}{74085018} * 100 = 9.54\%$

C. Analysis through Combined Ratios

1. Ratios of solvency and liquidity

General solvency= (7)
 $\frac{TotalAssets}{ForeignCapitals} = \frac{74085018}{11831465} = 6.26$

General liquidity= (8)
 $\frac{CurrentAssets}{TotalDebt} = \frac{22818874}{11831465} = 1.92$

This ratio reflects the possibility of the current patrimony components to transform in a short period of time into liquidities to comply with the due payment obligations. We appreciate a favorable global liquidity.

Immediate liquidity= (9)
 $\frac{DisposablFunds}{CurrentDebs} = \frac{909522}{11831465} = 0.07$

2. The ratios of the rotation of the component elements of the working capital needs

Stocks rotation= (10)
 $\frac{AverageStockOfTheTaxYear}{AssetsAccount} * 360days * 360 = 43days$

Rotation of the clients' credit= (11)
 $\frac{AverageClientsDebts}{AssetsAccounts} * 360days = \frac{6849030}{63370337} * 360 = 22days$

$$\begin{aligned} \text{Rotation of the suppliers' credit} & \quad (12) \\ \frac{\text{Average Suppliers' Debts}}{\text{Purchases} + \text{External Services}} * \\ * 360 \text{ days} & = \frac{5575514}{74238810} * 360 = \\ & = 27 \text{ days} \end{aligned}$$

$$\begin{aligned} \text{Global ratio of the working capital} & \quad (13) \\ \text{needs} & \\ \frac{\text{Working Capital Needs}}{\text{Assets Accounts} * 1.19} & = \frac{-3705970}{63370337} = \\ & = -0.058 \end{aligned}$$

Analysis Ratios

Table 5

ANALYSIS RATIOS	YEAR 2007	YEAR 2008
Global net working capital [lei]	-47,194	-6,366,468
Working capital needs [lei]	3,705,970	-934,301
Net treasury [lei]	-3,753,164	-5,432,167
Financial independence [%]	64,59	58,49
Indebtness degree [%]	5	18
Global indebtness degree [%]	9.54	17.55
General solvency	6.26	6,15
General liquidity	1.92	1.41
Immediate liquidity	0.07	0.07
Global ratio of the working capital needs	-0.058	-0.013
Stocks rotation [days]	43	43
Clients' credit rotation [days]	22	37
Suppliers' credit rotation [days]	27	41

3. Conclusions

The financial analysis aims at reflecting the possibilities of long term and short term financial balance, in carrying out the continuous activity of INTERLINK GROUP SRL. The company shows a policy of developing its production capacities and activity diversification, registering a working capital lower than the working capital needs.

A. Horizontal Analysis of the Functional Balance Sheet

From the analysis carried out on the grounds of the balance sheet, we notice that the *net global working capital* registers negative values (normally, its values should be positive), resulting that the company no longer has the capacity to finance its exploitation cycle, or, in other words, the exploitation cycle is the one financing the stable allocations. The

financing of a stable allocation through a cyclic resource generates financial problems when the activity is decreasing, circumstances reflected in the company's activity in 2008, compared to the year 2007. *The negative working capital* represents an **alarm** signal in the company's activity that lacks sufficient permanent capitals to ensure the financing of the non current assets. Practice has showed that, as far as the industrial companies are concerned, they should register values up to 1-3 monthly turnovers [3].

Additionally, we notice that in 2008 *the global net working capital needs* (-934,301 lei) registers a negative value that allows the financing of the negative global net working capital. *The negative working capital needs* may be explained by low stocks, by a longer term of the suppliers' credit and by a shorter clients' credit [1].

The factors influencing the working capital needs are the turnover, the term of the production cycle, (there is a manufacture term – manufacture cycle), rotation term of the stocks, (there are deadlines – clients and suppliers), the term of raw material, finite products and merchandises stocking, the difference between the term of recovering the outstanding debts and the deadline for the suppliers.

Therefore, *the exploitation working capital needs* depend on the rotation duration of its component elements, the values registered being, in the case of the *stock rotation speed* in 2008 at the same level as in 2007, and in the case of the *suppliers' and clients credit rotation* we registered an increase compared to the same year.

The working capital needs is the central element of the functional analysis that does not harmonize with the appropriate increase of the working capital and that determines problems at the treasury level.

The working capital needs represents the **current balance** of the company, while the *working capital* reflects its **long term balance**.

The correlation between the working capital needs and the, the working capital and the treasury may be expressed as it follows [5]:

Net treasury = Working capital – Working capital needs

The company INTERLINK GROUP SRL registers a working capital smaller than the working capital needs, both in 2007 and in 2008, resulting that the company's financial situation is in a treasury imbalance, needing to appeal to short term credits or to overdrafts (credit balances of the bank accounts).

The treasury imbalances do not always mean insolvency and nonpayment risk.

The short term credits are accessed on the grounds of the activity analysis and

they may solve the financing problem of a part of the working capital needs. Sometimes, appealing to short term credits may determine smaller costs than the established resources that, due to the variation of the interest rate, may become even more costly. Both in 2007 and in 2008 the company's treasury registers negative values, the analysis cases being the following:

- for 2007, **WC<0** and **WCN>0**, reflecting the situation of the bank credits covering part of the non current assets (WC<0), WCN and disposable funds (lower than the treasury credits), requiring a reconsideration of the financing structure;
- for 2008, **WC<0** and **WCN <0**, reflecting the situation of the permanent resources covering only a part of the non current assets WC<0, the rest being covered from short term debts (suppliers, clients advance payments) and current bank credits, imposing the rigorous analysis of the financing structure, as the **risk of the financial dependence on the outside** is high.

B. Vertical Analysis of the Functional Balance Sheet (or by Structure Ratios)

The ratios of the structure of the balance sheet liabilities (resources) among which we may remind: financial independence, the indebtedness degree, the global indebtedness degree help the appreciation of the financial balance by allotting financial resources to the needs (artificial capital).

As far the company SC INTERLINK GROUP SRL is concerned, the ratio of financial independence is of 64.59 %, in 2007 and in 2008 of 58.49 %, the recommended (optimal) increase being of 50%. We notice that compared to 2007, the company's financial independence is lower, yet the ratio's value is not worrying.

The indebtedness degree as well as the global indebtedness degree shows a certain independence from the company's creditors.

C. Analysis through Combined Ratios

The ratios of solvency and liquidity

The analysis of the solvency ratios reflects the long term stability and the short term and long term trustworthiness of the company's creditors. We notice that this ratio is almost at the same level in 2007 and in 2008.

The liquidity ratios complete the analysis by means of the solvency ratios, reflecting the company's abilities to face short term debts or total debts, by means of the stable resources. We notice that the ratio of the general liquidity is of 1.92 in 2007 (the ideal value is in the range 1.8 - 2), while in 2008 it decreases to 1.42, indicating a financial situation that starts having problems, idea also substantiated by the level of the ratio related to the immediate liquidity, that is much lower than the optimum value (considered in the range 0.8-1).

Ratios of the rotation of the working capital needs component elements

From the analysis of the working capital needs elements, we ascertain that the number of days of stocks renewal is similar to the year 2007, while the term of the commercial credit received from the suppliers' increases in 2008, phenomenon reflecting a more efficient collaboration.

The credit granted to clients in 2008 increased compared to 2007 and it is strongly connected to the increase of the suppliers' credit.

The ratios featuring the speed rotation of the assets and liabilities positions influence the financial performances of the company, by directly reflecting into the benefit and the economic and financial profitability.

Therefore, it is necessary to determine the factors and the ways of accelerating the speed of the current assets, during all the

phases of the economic circuit: supply, manufacture, sales.

The objective of the balance sheet is the one of accurately [7] present information on the company's financial position, on the capacity to adapt to the changes of the environment by means of resources, in the financing structure (debts and equity), as well as with the help of important economic financial ratios (liquidity and solvency).

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THE ADOPTION OF DIGITAL MARKETING IN FINANCIAL SERVICES UNDER CRISIS

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Abstract: Led by social media, online search, consumer generated content, virtual communities, and considering the increased focus on digital technologies, the longer-term prospects for digital marketing and the global online medium continue to be bright. Given the recent decline of the financial markets and the economic fallout, financial institutions have to implement new digital marketing techniques both for cost optimization and for dealing with the crisis of confidence.

Key words: digital marketing tools, financial crisis, customer confidence.

1. Introduction

Since marketing is essential for the organic growth of a company, allocating marketing resources is a complex decision, especially in times of economic crisis. The emergence of new media such as online search and display advertising, video games, virtual worlds, social networking, online user-generated content, and word of mouth marketing is creating both new opportunities and challenges for companies. Thus, marketing managers have the responsibility to optimally allocate resources and demonstrate that these investments generate appropriate returns for the firm.

2. Marketing in an Economic Downturn - Resource Allocation Challenges

As a result of the financial crisis, consumer spending is down, the stock markets plummet and the forecasts warn of more bad economic news in the future. While, historically, marketing budgets are among the first to be cut in a budget crunch, recent marketing outlook reports

vary from a bleak, pessimistic perspective to a more optimistic one.

According to a recent MarketingSherpa survey of 407 marketing professionals, companies are cutting marketing budgets - for example, 60% of large companies reported a cut has been made in 2008 or is expected [2] (Fig. 1).

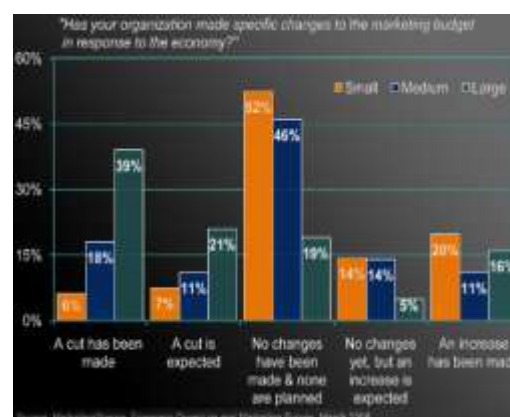


Fig. 1 Downturn-related changes to the marketing budget by company size

Therefore, spending too much of their tight marketing budget on overhead is not

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going to drive revenue, and marketers should focus on spending as much as possible in actual media instruments, including e-mail marketing, direct mail and advertising.

Nevertheless, a plurality of survey respondents, averaging 39%, said that their marketing budgets have not been affected by the downturn yet. Moreover, about 34% of marketers from small companies and 25% of medium-sized companies reported increases or expected increases, as more of these companies are cautiously raising their marketing budgets, because they are still growing and need to gain market share.

In contrast, the Chief Marketing Officer (CMO) Council's 2009 outlook study (which reached a broad population of more than 650 marketers at companies worldwide in a variety of industries) surprisingly found that budgets are holding firm despite a recessionary corporate revenue environment [1].

While broad concerns about the economic, stock market and credit downturn are not the leading forces shaping the 2009 budget planning process, marketers are paying close attention to their customers and responding to changes in the selling cycle. They focus on building internal efficiencies and strategic cost cutting, increasing customer insight, and strengthening integration with sales to drive revenue and market share. According to the CMO study, customer anxiety and cutbacks are the number one force affecting budget allocations in 2009, followed by slower selling cycles and reduced consumer spending, while only 14.9 percent of marketers are pointing to financial market disarray as a determining factor.

As CMOs do not anticipate broad cuts in headcount, retraining and developing existing staff is the leading strategy - especially for acquiring or sharpening

expertise in digital marketing competencies - with 62.9 percent of respondents electing training over recruiting new talent (28.6 percent) or outsourcing (17.1 percent).

Most studies show that marketers are preparing their contingency strategies. Thus, marketers are increasingly spending more on tactics with proven ROI (Return on Investment) and/or measurable ROI. Many are shifting expenditure from traditional to online tactics, while spending more on direct marketing and less on branding (30% of survey respondents are increasing direct marketing investments during 2009 in response to economic conditions, while only 19% are increasing brand investments [2]).

With the economic downturn acting as a catalyst in the shift toward online channels - with 38% of survey respondents increasing investment in online marketing, while 36% are decreasing spending on traditional channels - marketers that were previously using traditional media are now realising the value of online methods.

Even when consumers are spending less, it is more cost-effective to market to existing customers than it is to get new ones, especially in a downturn. Therefore, marketers have to keep in contact with them. Marketers could be investing more online because it is less expensive and easier to measure ROI than it is for traditional tactics (Fig. 2).

Thus, during the recession, marketers tend to shift spending toward trackable online tactics, including paid search, natural search and e-mail marketing.

While online channels usually imply lower costs than traditional channels, their major strength is measurability. The ability to easily measure opens, click-throughs and conversions per e-mail, or impressions per banner, means that performance can be quickly assessed across multiple campaigns, with more funds directed

towards the highest yields. Thus, ROIs can be easily calculated and the benefit to revenue immediately portrayed.

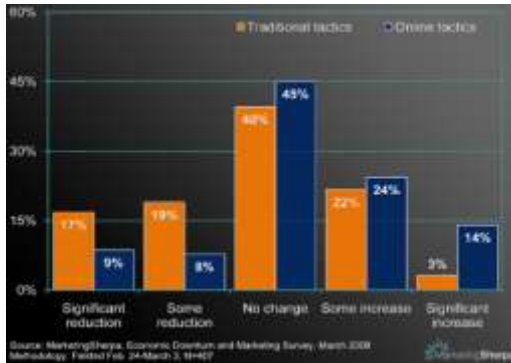


Fig. 2 Effect of the downturn on marketing tactics – Traditional vs. Online

Whereas marketers intend to increase their online marketing expenditure, they are focusing on the following channels: Figure 3 shows that the highest planned increase is for e-mail marketing to in-house lists, with 53% of marketers planning an increase and only 6% planning a decrease in budgets for the channel.

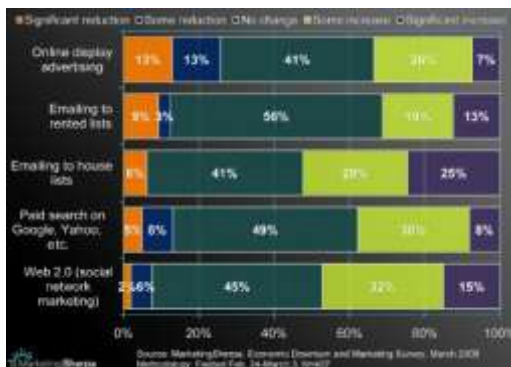


Fig. 3 Effect of the downturn on online tactics

Realising that increasing efforts to present consumers with relevant content will develop stronger relationships with consumers, which in turn will build overall branding and strengthen market share, marketers are placing greater importance

on refining and optimising their communications.

Web 2.0 tactics are also seeing a large increase in expenditure with 47% of marketers looking to intensify efforts in this channel (and only 8% decreasing spend). The most expensive of the channels are related to the three tactics that are experiencing greater cuts in spending: display ads (a 26% decrease), paid search (a 13% decrease) and e-mailing to rented lists (a 12% decrease).

According to the CMO Marketing Outlook 2009 study, marketers are also gaining increased confidence in the efficiency of digital marketing investments as digital begins to comprise the majority of demand generation spend. As digital marketing has evolved well beyond search, as social media and experiential marketing continue to grow and evolve, skilled marketers are applying collaboration marketing methods as a central component of their efforts to maximize customer lifetime value in the digital economy.

As stated by the 2009 Nielsen “Global Online Media Landscape” report, researchers are beginning to realize that listening to consumers and company stakeholders by mining the growing volume of conversations on blogs, boards and networking sites can provide timely, penetrating insights on a wide range of issues. Thus, through proactively incorporating and involving multiple stakeholders in value creation, marketers can avoid a perilous new form of marketing myopia, generated by an exaggerated focus on customers [4].

3. The Role of Digital Marketing in Financial Services under Crisis

Today’s financial institutions recognize the power of digital marketing in establishing real-time relationships with new and current customers, while having

the ability to quickly track and analyze customer touches and adjust accordingly.

The recent decline of the financial markets and the economic fallout brought about important challenges for the financial services industry: both from the asset and customer acquisition and the retention standpoint.

As the study conducted by MarketBridge & SourceMedia reveals [1] (a total of 237 persons from the financial services practice database were interviewed), financial services are slowly implementing digital marketing programs, using the digital tools that are more familiar to them and primarily on a campaign-by-campaign basis.

Regarding digital marketing tools, the survey conducted in Q3 of 2008 reveals that most respondents prefer using their own Web sites, e-mail, online advertising and search engines, tools that can easily measure return on investment (Fig. 4).

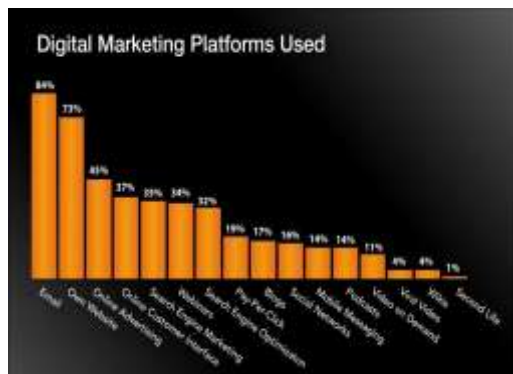


Fig. 4 Digital marketing tools used

Financial services also use more established and proven digital media tools and platforms, as evidenced by SEM and SEO at the top. Newer Web 2.0 tools such as viral video, social networks, and blogs, which have proved to be effective in other industries, are lower on the list (Fig. 5).

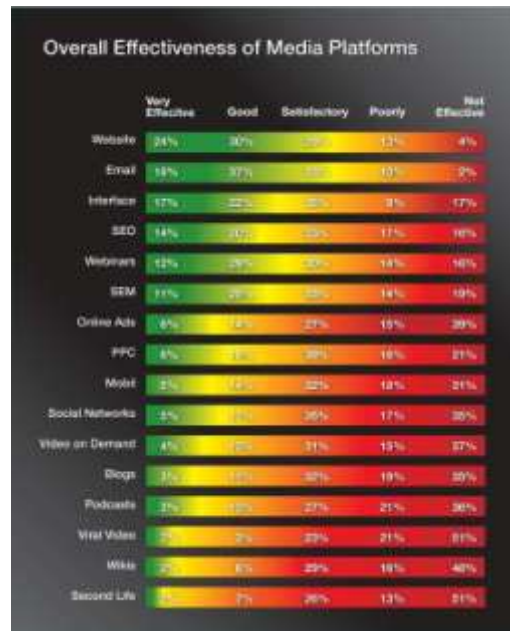


Fig. 5 Overall effectiveness of the new media platforms

Regarding digital marketing spending in 2008, the respondents indicated mostly Web sites - considered to be the most effective platform in driving customers to their sites. Web 2.0 tools and digital content are not big budget items in the present downturn (Fig. 6).

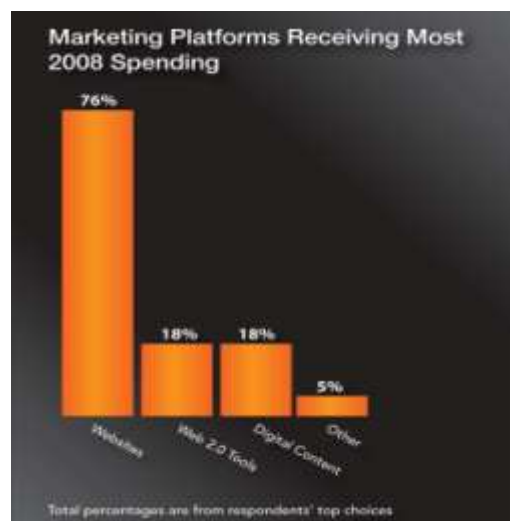


Fig. 6 Marketing spending 2008

The adoption of digital marketing techniques could play an important role in the recovery of financial services; that is why digital marketing would become a key part of their strategy going forward. The problems that occur are related to the lack of experience and the inability to prove ROI as their top concern about adopting digital marketing tactics and programs. [5]

These results show that the financial services industry has successfully implemented digital marketing strategies and platforms and even anticipates larger digital marketing budgets for the next period.

4. Dealing with the Crisis of Confidence

As the global financial meltdown spreads, it is clear that financial brands have been profoundly damaged by a crisis of confidence among their stakeholders.

In this case, the major marketing efforts regarding adjusting messages for addressing stakeholders' concerns should be conducted towards restoring trust and rebuilding confidence.

By simply continuing with light-hearted promotional messaging, financial brands appear out of touch with the crisis at hand.

Brands acquiring struggling ones have the opportunity to take advantage of repositioning themselves, through:

- campaigns that integrate advertising, direct mail, and public relations for communicating the advantages of the acquisition, demonstrating that the new entity understands stakeholder needs, and reinforces the new company's dedication to addressing stakeholder issues. In this process, they should consider the remaining equities of the acquired troubled brands to see if that plays a role.
- actively engaging employees to build confidence and assuage concerns over restructuring-related job losses (employees need to know their interests

will be taken into account as the crisis management strategy is developed).

- proactively disarming rumours through clear and regular employee meetings (to eliminate the risk of employee uncertainty further affecting customers).
- developing a new brand architecture to communicate the link between the acquirer and the acquired brand.

Large financial services companies that have not made an acquisition face a different set of challenges in rebuilding consumer confidence.

The lack of visibility can lead to stakeholder uncertainty and suspicion. Such brands should proactively demonstrate that they are credible, strong and healthy players in the changing marketplace through campaigns via the Internet, direct mail, and public speaking.

Employee engagement is also crucial for these companies - it is a real opportunity to turn employees into brand advocates; keeping them informed reinforces each company's dedication to their long-term strategies and to making the best of a bad situation, and even the potential to take this opportunity to make a big impact.

These brands also have the opportunity to position themselves as confident and active industry leaders by serving as clearinghouses for information about the financial crisis. A creative approach could be to develop a Web-based resource centre, populated by information that includes practical advice from independent experts about how individuals should respond to the financial turmoil. This type of activity builds brand credibility without the risk that the brand will be associated with troubled institutions.

Equally important is a strong, targeted marketing campaign to acquire customers from vulnerable competitive institutions.

The wait-and-see approach that characterizes the current actions of most financial services brand leaders must be

changed: intelligent marketing and brand strategy will demonstrate leadership and pay dividends in the future.

Greater transparency and provision of practical advice will play an important role in regaining the customers' trust. [6]

Because consumer confidence in the long-term health of financial companies is dramatically influenced by advertising and marketing efforts, those brands cutting back their advertising during the current downturn not only risk being "out of sight" but also "out of business".

The Nielsen IAG study (with 5500 U.S. respondents) [3] reveals that the main factors that would increase confidence in the safety and soundness of financial institutions are:

- regular advertising campaigns (25% of respondents);
- receiving regular mail or e-mail offers from that institution (25% of respondents);
- regularly seeing Internet offers or advertising from that institution (21%);
- reading positive press articles about that institution (44%).

Financial brands should try to constantly communicate with their customers; if difficult, lower cost alternatives can be considered:

- E-mail marketing;
- Online and offline PR;
- Social networking, viral campaigns. [3]

5. Conclusions

The combination of accountability, convergence and the infusion of digital media into every facet of life make the future look very bright for digital marketers, while the economic crisis will accelerate the shift of focus and importance from traditional to online marketing tactics and tools.

The findings presented in the article reveal that the foundation is set for marketers, but they are not shifting budgets

fast enough to fully understand the value and impact of these new tools and platforms.

We expect the impact of the current financial crisis to bring a huge opportunity for companies to gain a competitive advantage by becoming more aggressive in the use of new digital platforms. The next step is moving beyond one-off digital campaigns, increasing experimentation with digital tools and moving towards relationship marketing activities that build and maintain long-term customer retention.

Of great importance is the integration of digital channels with traditional outlets like TV, radio, direct mail, and direct sales coupled with rigorous analysis for fully allowing marketers to understand the consumption patterns.

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SOME CONSIDERATIONS REGARDING ASPECTS OF THE ACCOUNTANCY SYSTEM OF THE ECONOMIC INTERESTS GROUP

Gheorghe IALOMIŢIANU ¹

Abstract: *The economic interests group appears as a necessity in a market economy at the level of some secondary activities which influence the company's main activity that cannot be individually funded. The economic interests group will be set up through the association of one or more natural or legal entities for the purpose of achieving some activities necessary for the members of the group. Setting up the economic interests groups whose purpose is to obtain profit directly, using the products, works and services made by the group members, means making their activities more profitable in the sense of obtaining higher earnings or maintaining the entity on the market.*

Key words: *economic interests group, legal entity, tax liabilities, finance group entities.*

1. Association Methods between Legal Entity

It is known that in the market economy any association between natural and legal entities is free unless it produces negative effects at the economic function level.

The association between legal entities may have as purpose their financial consolidation or the possibility of financing the secondary activities needed to develop the main activity.

The financial consolidation will be accomplished through financial investments made in the capital stock of other companies, the owner of these securities having the possibility of exercising his rights of administration or having an important influence on the company.

Through financial investments there will be set up holding companies with the

purpose of processing or holding participation shares of another company, in order to monitor and manage their business activity.

On the basis of financial investments there are established societies groups that may be analyzed both financially and in terms of performances derived from the consolidated accounts.

Not all trading companies have the possibility to belong to a group taking in consideration the financial investments. Taking into account that in the market economy there exists the right of free association, the economic interest groups that were created on basis of economic interests will keep the independence of each and every member of the group.

If the group is based on financial investments there will be a control activity

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made by the parent company over other affiliated companies and the independence of the members of the economic interests group will be maintained.

Among these activities we can mention:

- the market survey;
- the program of nature protection;
- the patents;
- the setting up of access ways;
- the heating system;
- the manufacturing process.

2. The Tax Liabilities of the Economic Interests Group

The organization form of the economic interests group will influence the way of organizing the accounting records, namely:

a). if an interest group works in the form of an association without creating a legal entity, then the accountancy will be organized by one of the group's members, distinctively from its activity.

In order to highlight the discounts between the members of the group there will be used account 451: "Discounts within the group" which is a double – functional account:

- in the debit column we will register the amounts transferred to other entity within the group;
- in the credit column we will register the amounts received by other entity within the group.

The account can be:

- debtor balance, representing the amounts which have to be received by other entities within the group;
- credit balance, representing the amounts

owed to other entities within the group.

The account may develop like this:

- 4511 "Settlements within the group" – double-functional account used for setting the amounts transferred to other accounts or the received amounts between the entities within the group;
- 4518 "Interests related to discounts within the group" – double-functional account used for establishing the owed interests or the interests which have to be received from the operations within the group.

These accounts have to exist in the accountancy of each and every member of the group and they reflect the discount relations among them.

We can take into account the possibility of an association between three trading companies in order to create an economic interests group without generating a legal person. The A trading company has to organize the accounting. The purpose of the group is to conduct a market research.

The specific operations of the group that have to be registered are:

- a company has to receive the amounts from the other two trading companies owed by the group;
- a company has to cede the intangible asset and the other two trading companies have to get discharged of the goods according to the amounts paid;
- the interests to be paid and the interests to be received from the operations within the group have to be booked;
- the debt between the members of the group has to be redeemed.

Trading company A	Trading company B	Trading company C
512 = 4511	4511 = 512	4511 = 512
4511 = 758	201 = 4511	201 = 4511
666 = 4518	4518 = 766	4518 = 766
4511 = 512	512 = 4511	512 = 4511
4518 = 512	512 = 4518	512 = 4518

b). the interests group works as a legal entity which may be set up by means of subscribing the contribution of capital or without capital.

In Romania, according to Law no. 161/2003, the economic interests group of legal entities has the obligation to organize the accounting system taking in consideration the Accountancy Law no. 82/1991, with the subsequent modifications and completions.

The financial statements have to be prepared according to the norms provided by the accounts regulations.

After the approval of the General Meeting of the Members, the financial statement will be submitted by the manager to the Tax Authorities in maximum 15 days. One copy of the annual financial statement will be submitted to the Chamber of Commerce.

If an economic interests group has to be similar to the trading companies regarding the way of operating, it means that the tax liabilities have to be identical, too.

If the economic interests group is created previous to the subscription of the capital than the following operations have to be registered:

- the subscription of the capital;
- the payment of the subscribed capital;
- the distribution of the dividends;
- the reduction and liquidation of the capital.

In order to register these operations according to Accountancy Law no. 82/1991 and OMFPM 306/2002 the following accounts are provided:

- 1011 “Capital subscribed and unpaid” – passive account used for registering the subscribed capital by the members of the group;
- 1012 “Capital subscribed and paid in” – passive account used for registering the subscribed and paid capital by the members of the group;

- 456 “Discounts with the shareholders/associates regarding the capital” – active account used for registering the discounts regarding the capital between the members of the group;

- 457 “Dividends to be paid” – passive account used for registering the dividends owed to the group members.

The specific operations of the group members will be registered using the accounts of the general account scheme approved by OMF 306/2002.

Others fiscal liabilities of the economic interests group are:

- the registration of economic operations will be based on accounting documents;
- maintaining the compulsory registers (the day book, the nominal ledger, the stock book);
- carrying out of the inventory;
- drawing up financial statements.

It may be possible that through the specifications of MFP there should be clarified two relations of discounts regarding the capital, which should be registered using the account 451 “Discounts within the group” or 456 “Discounts with the shareholders/associates regarding the capital”.

3. Tax Liabilities

Depending on the type of organization of the economic interests group there will be established the following tax liabilities:

- a). if the economic interests group is organized through association without generating a legal entity, then the tax liabilities belong to the trading company which has to carry out the specific operations of the group, with the obligation of keeping the accounts;
- b). if the economic interests group is organized as a legal entity, then it will be treated as a tax-payer with the

obligation of registering itself at the Tax Administration.

It also has the obligation of establishing the owed duties and taxes, preparing and submitting the declaration of taxes at the Tax Authorities.

Among the duties and taxes that have to be paid are:

- the profit tax if it gets profit as a result of carrying out the activities;
- the salary income tax (if it has employees);
- the value added tax – if it is a value added taxpayer;
- the dividend tax, if the dividends are distributed to the members of the group;
- the local duties and taxes, if there are taxable goods in their own patrimony (buildings, and others);
- the customs duties, if it makes imports;
- other contributions mentioned by fiscal legislation

The economic interests group with remunerated personnel also has to pay some other budgetary obligations:

- the social security contribution;
- the unemployment fund contribution;
- the health insurance contribution;
- other contributions mentioned by fiscal legislation.

The economic interests group has to be submitted to the Control Department of the national authorities and for not paying the budgetary obligations has to bear interests and penalties.

4. Conclusions and Proposals

The economic interests group operating as a legal entity which will be assimilated to a trading company both from organizational point of view and considering its obligations towards the

members of the group and the creditors point of view.

However there are some differences, such as:

- does not have as the main purpose getting a profit, but achieving activities necessary to the group members;
- has a limited number of customers because the entire activity will be capitalized by the group members;
- the level of the price regarding capitalization of goods, services and performed works will be established by the CEOs (Chief executive Officers) of the group.

There could be made a proposal regarding the elucidation of the following aspects:

- if the level of the price regarding the capitalization falls under the incidents of Law no. 414/2002 regarding the profit tax;
- if the fiscal losses are deductible;
- if the economic interests group benefits from the fiscal facilities specific to trading companies.

In the light of the above mentioned aspects, we consider that the operation of the economic interests group represents a necessity in Romania.

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ACCOUNTANCY OF THE PRESENT – STANDARDIZED SOCIAL PRACTICE THROUGH FINANCIAL STATEMENTS

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Abstract: *Accountancy is the social science that has evolved and has been perfected in time so as to answer the informational needs of every stage in the evolution of society. Nowadays, the phenomena of globalization of economy impose, more than ever, the necessity of creating a universally accepted accounting language. In order to reach this desideratum, accountancy has initially passed through the processes of standardization and harmonization since the last decades of the past centuries, so that, at present, we experience challenges with respect to accounting convergence and conformity. In this work, we set out to analyze the dynamics of the accounting theory, passed through the filter of the processes of standardization, harmonization, convergence and conformity*

Key words: *standardization, harmonization, convergence, conformity, accounting postmodernism.*

1. The First Attempts at Standardization and Accounting Harmonization

Worldwide, there are several accounting cultures; however the opinion battle is fought between the two consecrated accounting blocks: the Western-European accounting system, also denominated continental, whose promoters are France and Germany, and the Anglo-Saxon accounting system, represented by the USA and by Great Britain. *The accounting standardization* is the process by means of which standardization is accomplished as regards the presentation of the synthesis documents, the accounting methods and the terminology [1].

The accounting standardization may be realized either through elaborating general accounting plans, or through elaborating conceptual accounting frames. The applicability of the general accounting

plans, meant for several enterprises, proved its utility towards the end of the 19th century, as a consequence of three determinant factors [2]:

- development of the financial markets, which brought about the need for a better entering of the company performance into books, especially under situations of crisis;
- acceleration of the concentration of enterprises in great industrial groups, which generated the necessity for common accounting standards for the entities of the group;
- development of the scientific thinking and research in the subject of accounting standardization.

International accounting harmonization is „the process by means of which the national rules or standards, different from one country to another, sometimes

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divergent, are perfected in order to be rendered compatible.”[3] The result is the apparition of the accounting standards accepted at international level, in an attempt to achieve a common accounting language, beyond the particularities of national accounting systems. The harmonization of the accounting rules may lead to an international accounting. This one defines its content on the basis of international accounting standardization. The International Accounting Standards were elaborated under the influence of the neo-classical micro-economic theory, constructed on hypotheses such as: pure and perfect competition, existence of the efficient markets, rationality of the individuals and perfect information (I. Ionaşcu, 2003).

Until 1980, when the first measures of accounting harmonization began to take shape at European level, there had been a great variety in the technique of drawing up financial statements. The uniformization of the practices of financial reporting was accomplished, during the last part of the 20th century, on three different levels: the format of the financial statements, the requirements for presenting the information and in the last resort the accounting principles and the methodology for the evaluation. A first attempt at the uniformization of the accounting practices with respect to financial reporting took place in Germany, where, during the year 1911, J.F. Schaer published the first chart of accounts, which was used during the period of the First World War. Professor E. Schmalenbach had preoccupations on the same line and, in the year 1927, he proposed the development of charts of accounts differentiated on branches of activity. The first version of the General Plan of Accounts was submitted during the year 1947, subsequently reviewed in the year 1957 and partially implemented in the 4th Directive of CEE of the year 1982 [4].

Immediate consequence: the main beneficiary of the accounting information was the State, in its quality of duty and tax collector.

As I have shown, the development of accountancy on the European continent, in the first half of the 20th century, was the result of the efforts of the German school. The German authors were, at their turn, preoccupied with formulating the accounting principles and they made public the result of the first research with respect to accountancy in current value (Schmidt). However, a truly remarkable and original contribution to the progress of accountancy was incontestably offered by professor E. Schmalenbach: he introduced the economic vision upon accountancy and the idea of standardizing the accountancy of the enterprises at national level through an accounting-frame plan.

At the other side of the spectrum, the necessity for developing a conceptual accounting frame started being discussed in USA, ever since the year 1933, after the great economic crisis. As a matter of fact, the first decades of the 20th century were characterized by the American specialists' attempts at formulating, classifying and explaining the accounting principles, in view of enhancing the quality of education and accounting principles. That was a timid attempt at accounting standardization, which materialized during the year 1934 through the elaboration of the generally accepted accounting principles. Moreover, the American accounting profession introduced a formula in the accounting auditor's report, according to which: „financial statements present the faithful image of the financial situation characterizing the company and the results of its operation, in compliance with the generally accepted accounting principles”. [5]

The generally accepted accounting principles have been developed from the

observation of accounting practices, they have a descriptive character and they have become, since the second half of the 20th century, the basis of the theory of accountancy of the normative-inductive type. After the year 1970, the American accounting profession abandoned the normative-inductive accountancy theory, represented by the generally accepted accounting principles, in favour of the normative-deductive accounting theory, under the form of the conceptual accounting frame, fundament for elaborating the accounting norms.

2. New Dimensions of Accountancy in the Context of the Globalization of Economies

It has become a reality that, at present, the worldwide economy experiences the passage from a model built on interdependent national economies, to a model represented by a network of multinational societies, which unfold their activity on a global level. Concentration is a concept frequently encountered in the strategy of enterprises and refers to „the process of grouping the production means and the capital in the same sphere of control, with the purpose of enhancing the advantages that may be obtained on the market (acquisition of a competitor firm, participation in the commercial partners' social capital, increase in profitableness through the access to production factors across cheaper markets etc.)”. [6]

At the end of the '90-ies, the general tendency as regards accountancy was towards reaching the objective of standardization and harmonization of the national accounting systems; however, the process of harmonizing accountancy did not display the expected results and, recently, at international level, there have been attempts at reverting towards accounting convergence. As a matter of fact, IASB and FASB signed a

Memorandum in the year 2002 by means of which they agreed upon finalizing a project called „International Convergence on the Short Term”, with the main objective of eliminating, until the beginning of the year 2005, a series of differences between the referential IAS and US GAAP. After this date, the second stage was set, materialized in the common project called „Project of Common Verification of the International Convergence”. [7] Contrary to the efforts of the two organisms of standardization, the convergence US GAAP/IAS is not a simple process, in the first place because, there is a disagreement between the two accounting referential systems as regards the sphere of influence. If US GAAP are required by enterprises which want financing from the American capital markets, the referential IAS/IFRS is recommended to the companies which aim at being quoted on international capital markets. Consequently, IAS/IFRS are meant to cover a much wider area and they refer to enterprises with different structures. Given these reconsiderations and reorientations, doubled by the loss of the public's trust, as to the information produced and disseminated by accountancy, and moreover, undergoing auditing (the famous financial scandals: Enron, Parmalat etc. do not really belong to the distant past), the chartered accountant has nowadays the difficult mission of involving himself actively into and of correcting the inadvertences of an accounting system, not few times, of geopolitical and financial influences: there is a fight for supremacy between US GAAP and IAS, respectively IFRS. Irrespective of the nature of the standardization act – public, private or mixed, „accounting standardization will always necessarily be a political activity, in which the standpoint of the most powerful will have the greatest chances to

win”. [8] As a matter of fact, M. Capron, analyzing the processes of accounting standardization, accounting harmonization and convergence, in the paper *Contabilitatea în perspectivă [Accountancy in Perspective]* (1994), appreciated that „they will unfold in a ratio of forces among the international political organizations, the great multinational companies and the States of the highly industrialized nations. In this game on a planetary scale, neither the role, nor the influence can be neglected of the great international auditing cabinets, of Anglo-American origin, which make their model circulate and often succeed in imposing it in what we might call in the true sense of the term, an international competition”. [9] At the level of the European Union, the process of implementing the referential IAS/IFRS began on the 1st of January 2004, when two periods were delimited: [10]

- 1st of January 2004 – 31st of December 2004 stood for the period of transition or for the period of re-deal with financial statements, respectively the comparative period;
- 1st of January 2005 – 31st of December 2005 stood for the period of effective application or for the period of drawing up the first financial statements according to IFRS.

Practically, at European level, according to the *Regulation 1606/2002 with respect to the application of the International Accounting Standards*, also denominated *IAS Regulation* ever since the 1st of January 2005, all companies quoted on the capital markets throughout the European Union, including crediting and insurance companies, have been obliged to publish consolidated financial statements according to IFRS. This approach triggered the development of two accounting systems in the countries of the European Union, which are simultaneously

applicable: an accounting system articulated on IFRS and another one substantiated on national GAAP. The member States are in a position to opt for the conformity with IFRS, both for the individual financial statements of the quoted companies and for the financial statements – consolidated or individual – of the non-quoted companies. Within the framework of the European Union, the discrepancies signalled between the European Accounting Directives and the referential IFRS made it necessary the adoption of the Modernization Directive 51/2003 during the year 2003, which offers the enterprises which relate their accountancy to the European Directives the possibility of resorting to the accounting options IAS/IFRS. The Modernization Directive amended the European Directives as regards: content of the annual accounts, presentation of the balance sheet and of the profit and loss account, evaluation rules, issue of the commissions, structure of the audit report, content of the management report, etc.

In the accounting doctrine of the end of the 20th century, the scientific discourse is substantiated on three theories of accounting: normative theory, positive theory and constructivist theory.

Normative theory describes how accountancy should be organized and admits as true any enunciation validated by the professional-scientific community. *Positive theory* is focused on the description and prevision of the accounting behaviour so that it should develop a “sociology of accountancy”. Positivists admit the truth of a hypothesis only provided it has been verified through observation and experiment. *Constructivist theory* considers accountancy a social „construction” and is based on language, interpretation and understanding of human actions. A regulation is validated only provided its content is intelligible.

Nowadays, accountancy has evolved towards another step in knowledge, a process caused by the profound changes that took place in the sphere of economics, under the inertia of the phenomenon of globalization and internationalization of economies. Accounting specialists name the recent dynamics of accountancy, accounting postmodernism. [11]

In our country, postmodernism was brought forth by professor I. Ionaşcu (2003) and it seems to convey several senses:

- the attempt of accounting theorists at finding an answer to current phenomena (globalization of economies, continuous deregulation of markets, constant development of the consumption society and of the information society) which raise problems in business administration;
- postmodernist society is seen in a continuous transformation, which requires a trans-disciplinary approach of the enterprise management, a mix among economics, sociology, philosophy, law;
- postmodernist accounting research, launched in Great Britain after 1980, also taken over by French experts are, in professor Ionaşcu's view, those which declare themselves post-constructivist, those interpretative and the radical critical trend.

The accounting research oriented towards postmodernism pre-eminently aims at the accounting language and at the significance of accounting information as an instrument of social communication. Nowadays, accountancy has turned into a „social game”, because, on the basis of accounting information, economic decisions are made which influence the well-being of the individuals and of the social groups, turned into actors of this game, which has precise rules and, moreover, stakes represented by the

created wealth. It is a rough game in which winners can be only those who have access to relevant, credible and comparable information in time and space. The last years were characterized, as financial analysts show, by a genuine „mania of fusions and acquisitions”. In this context, the classical place of the balance sheet in which one's own sources and debts pre-eminently financed the activity of the enterprise, so that it should subsequently self-develop through the turnover, was taken over by the over-dimensioned balance sheet through self-obligation and external rise, starting from the premise that the bought assets would generate a profitability superior to the cost of the borrowed capital. In Anglo-Saxon accountancy, pre-eminently oriented towards the satisfaction of the investors' information needs, the information will be realized most of the times through the notes to the financial statements. At the opposite side of the spectrum, in continental-European accountancy, the accent is laid on the balance sheet and on the profit and loss account, to the voucher receiving a lesser importance. In fact, the practice of drawing up the voucher has been relatively recent, since the '80-ies, as a consequence of the influence exercised by the Anglo-Saxon accounting culture, through the inclusion of Great Britain in the process of European integration. The experts in the field of accountancy have repeated, on different occasions, the fact that, at present, the accounting community is driven by the strong desire of standardization and harmonization of the accounting practices at international level with the purpose of enhancing the comparability of the information disseminated through financial statements. In other words, the current preoccupations in the field of accountancy circumscribe the need for realizing a unanimously accepted accounting language, which

should be found in the application of uniform accounting principles and treatments, as fundament in constructing financial statements. This is a complicated approach, with a trajectory sometimes dictated by certain influences and especially with an extraordinary dynamics. The chartered accountant of the present times takes up the difficult mission of keeping pace with the frequent updating and modifications of the accounting regulations decided at international level. Gradually, the general tendency is to eliminate both the economic barriers among the States, and the barriers that pertain to the particularities of national accounting systems. It remains to be seen whether the accounting model thought under the current form will have the expected results.

Conclusions

Here is a surprising dynamics of accountancy, from the apparition of the first accounting notes, to the attempt at achieving the accounting standardization and harmonization internationally and, more recently, at accounting convergence and conformity.

Although the practice of financial reporting began being outlined only in the 19th century, the theory and practice of the balance sheet and of the account of results incited the chartered accountants all through the 20th century and remain the focus of their preoccupations, due to the ever-increasing and diversified information necessities of the users of financial-accounting information.

The evolution of accountancy was the immediate answer to the mutations produced in the economic, political, social and cultural life everywhere.

The same rule also existed in the case of Romania where, because of the historical

context, most times unfavourable, the reconsiderations in the field of accountancy were produced with a certain delay as compared with other States in Western Europe.

At present, the difference is lost, Romania being connected to the changes that take place in the sphere of accountancy internationally.

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THE RECENT FINANCIAL BUBBLE: AN OVERVIEW

EI THALASSINOS ¹

Abstract: *The main aim of this paper is to analyse the recent financial crisis and to make recommendations how to handle it in the best possible way. Financial bubbles, since the great depression, have been analysed and some recommendations have been made taking into account the internationalization of the world economy which behaves like a domino. The recent financial crisis in the sub-prime mortgage market creates new problems in the world market with unforeseen continuances. Deflation has been referred to as a possible continuance after a financial bubble because often but not always deflation follows. Deflation often results in financial and economic crises. Financial and economic crises affect the architecture of the monetary system, while a change in the system may affect the role of the dollar, the euro and the yen.*

Key words: *Financial crisis, world economy, monetary system.*

1. Introduction

Although, there is a tough debate between university professors, professionals and market analysts regarding the characteristics and the reasons behind the current financial bubble, the present paper considers that the crucial characteristics of this credit crisis is a combination of less available and more expensive credit in addition to a declining demand which eventually will hurt even healthy companies.

It is known that corporate financial decisions are driven by demand and supply factors. In that respect from the demand side the expected decline in demand and the likely fall in capacity utilization will cause companies to cut back on new investments in capacity and expansion, stalling growth further and reducing their need for external capital. From the supply side, the available credit is now scarce and more expensive than ever. Selective financing is possible with significantly higher spreads.

2. The Current Financial Crisis

The current financial crisis has affected

almost all economic sectors hardly. Auto industry, shipping industry, construction industry, banking/insurance services and agriculture are in great danger. Thousands of cars of all types are parked in free-zone lots, ships are anchored and empty around the world, construction is low, letters of credit have disappeared from the market, while the market prices for most agricultural products are not fair.

We are facing a very tough environment and certainly a recession in many countries. The question is: How severe will it be? Some observers have argued that it will be relatively short and shallow. They point to the relative flexibility of the US economy and the rapid intervention of Obama's government.

In this scenario, the main issue that companies will have to content with is the increased risk aversion and tighter lending standards of banks. It might also take a while for confidence to return to the capital markets. This scenario favours companies with stronger credit profiles because they will still be able to raise funds, not just from banks in home markets but from

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global financial sources.

The IMF has studied more than 100 past recessions around the world and arrived at a clear conclusion. Recessions induced by a financial crisis are deeper and worse. Such recessions tend to be “two to three times as deep and two to four times as long” and to lead to “negative growth of 4.5% of GDP”. In the current situation, the overall high level of credit, the financial bubbles, and the highly leveraged consumers in the US, are the main reasons to be worried about. Therefore, real economies around the world need to be prepared for a serious recession in 2009 and 2010. They have to plan for a situation in which banks continue to fail, consumer demand continues to decline, and the unemployment rate goes up.

All developed economies will fall into recession. Under this development what, specifically, are most companies in the real economy likely to face? According to what most observers believe, we are going to face:

- Difficult access to funds accompanied with significantly higher cost of capital
- Weak stock markets with continued volatility
- Credit losses
- Significant balance-sheet risks, reduced cash flows and low profit margins
- More government intervention along with protectionism and re-regulation
- Shifts in consumer behaviour
- Every industry will be affected from a consolidation wave.

In such an environment, what will be the actions to be taken by financial institutions? A proper rescue-plan is certainly an immediate issue for the financial industry to make which must be consistent with the conditions of every economy in the world.

3. Reality and Prospects

Due to internationalization the world economy behaves like a domino. The recent financial bubble in the sub-prime mortgage market creates new problems in the world market with unforeseen continuances.

For example deflation is a possible continuance after financial bubbles

because when financial bubbles collapse, often but not always deflation follows. Deflation often results in financial and economic crises while financial and economic crises affect the architecture of the monetary system. In this case, a change in the system may affect the role of the dollar, the euro and the yen.

If the resources of the US economy are sufficient to redefine financial markets, there will be a way to manage the outcome of this crisis. If the crisis becomes so large that even the resources of a \$14 trillion economy mobilized by the state cannot do the job, then the world economy is in great trouble. If the latter is true, then all other discussions are irrelevant. Events will take their course, and nothing can be done. The world economy is going in a deep depression. If it is not true, that means that politics defines the crisis as it has other crisis. In that case, the US federal government can marshal the resources needed to redefine the markets. The federal government must act in due course, and an institutional resolution taking power from the Treasury will emerge as soon as possible.

The next question is how much time remains before massive damage is done to the world economy. If there is no time, events will take their course, and nothing can be done. We are going in a deep depression again. If there is still time events will take their course, and something can be done. We are going in a deep recession. Therefore, in any case be prepared for either a deep recession or a deep depression.

4. The How's and the Why's of the Financial Crisis

There are actually two possible ways to deal with the crisis. Allow the market to solve the problem over time or have the state organize the resources of the society to speed up the resolution. The market solution is more efficient over time, producing better outcomes and disciplining financial decision-making in the long run.

However, it is known that the market solution can create massive collateral damage such as high unemployment on the

way to the superior resolution. The state solution, on the other hand, creates inequities by not sufficiently punishing poor economic decisions because it creates long-term inefficiencies that are costly and it has the virtue of being quicker and mitigating collateral damage.

Based on the explanations given by distinguished researchers, the current financial crisis can be attributed to at least 5 misleadings in the global economy.

- Lack of effective regulation in Investment Banking
- Market makers
- Risky innovative products (toxic products)
- Economy decline
- Globalization.

Some concerns about the crisis are still open for discussion. Beyond the uncertainties which the real banks face, there is mounting concern around the rest of the shadow banking system regarding Hedge Funds, Private Equity Funds, and other alternative investors. What has begun as a leverage crisis and a credit crunch has turned into a full-blown insolvency problem as well.

The globalization on US Treasuries with a rate close to 60% in 2008 may be the next weak point of the world economy. A huge amount of money in the US Treasuries depends on the kindness of strangers. The globalization on investments with a tremendous amount of capacity built up, a rate close to 23.5% of the global GDP in 2008 is another concern on how the crisis will be developing.

The huge growth in derivatives with the outstanding amount of open positions in OTC* (over the counter) derivatives markets reaching 35 times the US GDP in 2007 (about \$525 trillions with \$13,8 trillions GDP) while in 2004 it was 14 times (\$162 trillions with \$11,6 trillions GDP) and in 2001 it was only 6 times (\$67 trillions with \$10,1 trillions GDP) is also an important issue to watch for since the current outstanding amount of open positions in OTC derivatives markets is 35 times the US GDP.

Besides all the above, the changing face of

the US economy with the consumer spending close to 73% of the total GDP may be the next weak point in the global economy.

5. Financial Pillars

Looking back to the crisis we have realised that the modern financial system has been affected mainly on its pillars. It is known that the MFS rests on three pillars:

- Capital
- Liquidity
- Confidence

Regarding the first pillar, capital, in the 12 months to August 2008 the reported losses have reached \$250 billion in the US, \$200 billion in Europe and \$100 billion in Asia. These losses have depleted financial institutions' capital faster than they can raise new capital.

Regarding the second pillar illiquid capital markets have made it hard for them to finance their own debt. For the third pillar, falling confidence has damaged inter-bank lending and made depositors jittery. As a result, it is not since the crash of 1929 that the global financial system has been subjected to such a severe shock.

The reasons behind the crisis are based on three widely held misconceptions:

That the creditworthiness of borrowers was strong, that investors were sophisticated, that credit risk was widely distributed. Unfortunately none of them was valid.

i. The creditworthiness of borrowers was strong

That was however, a dangerous circularity to the logic. Lender and investor perception of healthy homeowner credit drove spreads lower, causing marginal borrowers to appear to be more financially attractive than they were, in fact, and making it easier to justify providing them financing.

ii. Investors were sophisticated

Lenders and investors were assumed to be exceptionally sophisticated. Advanced financial technology meant that the risk could be finely tailored to their specific needs. Strengthened by credit insurance and blessed by rating agencies, this risk was assumed to be nearly bullet-proof. Consequently, the capital applied against it was minimized.

iii. Credit risk was widely distributed

Market participants believed that the risk was widely distributed among global investors. Even if credit worsened and analytics failed, the absence of concentrated risk would prevent systemic problems. This belief, more than any other factor, explains why people - instead of being worried of a market bubble - were under the impression that this time, it was different.

Financial markets worldwide are still unstable, harming the world economy hardly. They reflect ongoing deleveraging pressures amidst a deepening economic downturn. In spite of extensive policies, the global financial system remains under intense stress. The worsening economic conditions worldwide are producing new, large write downs for financial institutions. According to some analysts the new bank write-downs during 2010-2011, after offsetting the anticipated revenues, would result in a capital shortfall of another half a trillion dollars. In response, balance sheets are being cut back through asset sales and the retiring of maturing credits. These actions have increased downward pressure on asset prices and reduced credit availability.

6. Conclusions

Restoring the financial sector functionality and confidence are necessary elements of economic recovery. However, more aggressive actions by both policy makers and market participants are needed to ensure that the necessary deleveraging process is less disorderly.

A broad three-pronged approach including liquidity provision, capital injections and disposal of problem assets should be implemented to encourage balance sheet cleansing. At the same time, international cooperation will be required to ensure the policy coherence and consistency needed to re-establish financial stability. Are the main players in the world economy ready to cooperate?

Today, with the global financial system shaking what are the necessary steps to be taken, what are the new initiatives from the managerial and the financial point of view? The Proposed Initiatives to be taken and/or to be adjusted are:

From the managerial point of view:

- Introduce a crisis-monitoring team, which will monitor the key early-warning indicators and stress-test scenario planning, develop scenarios, evaluate the competitive landscape and implement measures
- Cost and organizational efficiency - implement new measures for cost and organizational efficiency that can be executed without risking major opportunities
- Plan for the upturn - investments that strong companies make in R&D, IT or new infrastructure will only come on stream once the recession is over.

From the financial point of view:

- Watch your trade credits
- Start working capital initiatives - improve processes to monitor working capital
- Look for opportunities and engage in selective M&As - recession changes some of the long-standing "rules of the game". Take advantage of the weaknesses of competition in order to redefine the industry.

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CONSIDERATIONS ON THE METHODS OF PREDICTION OF AN ENTITY'S BANKRUPTCY

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Abstract: *Assessing and evaluating the financial health of an entity requires assessing the risks accompanying the activity, some of which indicate vulnerability, while others predict bankruptcy.*

The study of the bankruptcy causes has shown that this phenomenon is a consequence of the progressive degradation of the entity's financial situation and may be predictable long enough before its appearance by means of some accounting and banking methods.

To what extent do these methods allow the detection of the signals of degradation, which anticipate the bankruptcy? Is it enough to use just a single method? Is it necessary to combine several methods of analysis? These are some questions that support the desirability of this theme.

Key words: *assessing the risk of bankruptcy, accounting methods, banking methods.*

Introduction

In Romania, insolvency is regulated by Law no. 85/2006 regarding the insolvency procedure. The law treats approximately equal the two major components of the insolvency (judicial reorganization and bankruptcy).

Both the studies and the analysis published in the insolvency field in our country show that the majority of the entities to which the insolvency procedures opened ends up becoming bankrupt, after the period of observation. This conclusion is supported by the statistical data of the Ministry of Justice, according to which the percentage of the cases confirming the plan of reorganization, on which judicial reorganization is carried out, fell steadily. Moreover, the very future regulation introduced by Law no. 85/2006 recognize this, by establishing a simplified

bankruptcy procedure, procedure that provides the legal means for rapid removal from the market of the entities that do not have real chances of recovery.

Insolvency and, implicitly, bankruptcy are the consequence of a high level of indebtedness and a low degree of solvency that can bring the entity in financial difficulty, which requires the procedure of judicial reorganization.

The causes that can lead to bankruptcy are numerous and aim, primarily, the reduction of the activity, the reduction of the margins and the rates of profitability, specific cash-flow problems, and managerial problems.

To the study of the causes of bankruptcy, in addition to the national scientific effort to tackle the phenomenon and to make decisions to improve the legislation in the field and, especially, the measures to

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decrease or maintain control of it, we should add the broad international experience in the field, which shows that it can be forecast by using some accounting and banking methods.

Analysis of the Methods of Detecting and Prediction the Risk of Bankruptcy

The risk of bankruptcy expresses the possibility of occurrence of failure in payment of the falling due obligations as a result of closing with losses the previous years, uncovered losses that have entirely exhausted the equity. It can be predicted, as we have already shown, using both accounting methods and banking methods.

The accounting methods aim at the financial ratios balance on short and long term, solvency and liquidity, and the banking methods require the calculation of

some score-functions, which allow the early detection of the risk of bankruptcy.

The calculation of a score-function is based on a set of financial ratios got from groups of entities that had behaved differently when confronted with the risk of bankruptcy. The specific literature recorded several scoring methods of predicting the risk of bankruptcy, of which we mention: the Altman model, the Conan-Holder model and the Romanian Commercial Bank model.

The Altman model developed in 1968 in the U.S.A., was the first score-function allowing the anticipation of 75% of the bankruptcies two years before they happened, being applicable, in particular, to the entities listed at the stock exchange.

The Z score-function involves five variables (ratios) and has the following expression:

$$Z = 1.2R_1 + 1.4R_2 + 3.3R_3 + 0.6R_4 + 0.999R_5 \quad (1)$$

where:

R_1 = current assets/total assets

is a measure of the entity's flexibility and underlines the percentage of the current assets within the total assets. High values of this record indicate the efficient use of the current assets;

R_2 = reinvested profit/total assets

is a measure of the capacity of the internal financing; an as high as possible value of this record being recommended;

R_3 = operating earning/total assets

represents the rate of efficiency of the use of the assets; an as high as possible value is recommended;

R_4 = market value of equity/total liabilities
represents the financial autonomy;

R_5 = gross turnover/total assets

is a ratio of the effectiveness of the assets, i.e. total asset turnover.

Depending on this score, the entity's vulnerability to the risk of bankruptcy is evaluated as follows:

- $Z > 2.675$ - good financial situation, reduced risk of bankruptcy up to nonexistent;
- $1.81 < Z < 2.675$ - precarious financial situation, undetermined bankruptcy risk;
- $Z < 1.81$ - difficult financial situation, insolvency, imminent bankruptcy risk.

By ordering on the basis of the correlation coefficient, Altman determined the relative contribution of each rate to the discriminatory power of the Z score-function and found that the first is the efficiency ratio of the use of the assets (R_3), followed by the total asset turnover (R_5), the degree of financial autonomy (R_4), the internal financing capacity (R_2) and the percentage of the assets within the total assets (R_1).

We are presenting below a possible model of calculating the Z score-function based on hypothetical data that can be

extracted from an entity's financial statements (table no. 1):

Table no. 1
Calculation of the Z score-function – the Altman model

Variables (rates)	Year N-1	Year N
R ₁ = current assets/total assets	141852/236420 = 0.60	181373/259104 = 0.70
R ₂ = reinvested profit/total assets	23660/236420 = 0.10	38866/259104 = 0.15
R ₃ = operating earning/total assets	26007/236420 = 0.11	33684/259104 = 0.13
R ₄ = market value of equity/total liabilities	175390/78650 = 2.23	201880/72100 = 2.80
R ₅ = gross turnover/total assets	203322/236420 = 0.86	233194/259104 = 0.90
The Z score-function	3.420	4.058

The values of the score-function determined for the two financial years, higher and increased values from the limit of 2.675 show a good financial situation, without any risk of bankruptcy. The entity is solvent, credible, the risk of bankruptcy is nonexistent and, therefore, eligible for credits.

The main disadvantage of this method is its restricted area of applicability, limited only to the entities from the American manufacturing sector in which the research found at its basis was carried out, and the conclusions can be extrapolated to a wider universe only, and only if one adapts the model of calculating the score-function to

the particularities of a sector.

The Conan-Holder model

J. Conan and M. Holder have developed a model of discriminatory analysis that determines the likelihood of an entity to reach the state of bankruptcy.

The score-function related to this model differs according to each sector of activity and allows the association to score of a probability of bankruptcy.

The model was developed in 1978 on a sample of 190 small and medium-sized entities, of which half became bankrupt between 1970-1975.

For the industrial entities, the score-function is as follows:

$$Z = 0.24R_1 + 0.22R_2 + 0.16R_3 - 0.87R_4 - 0.10R_5 \quad (2)$$

where:

R₁ = gross surplus from operating/total liabilities;

R₂ = permanent capital/total assets;

R₃ = current assets – inventories/ total assets;

R₄ = financial expenses/turnover;

R₅ = employee benefits expenses/added value.

Depending on this score, the entity's vulnerability to the risk of bankruptcy is evaluated as follows:

- Z > 0.16 - very good financial situation, bankruptcy risk < 10%;

- $0.10 < Z < 0.16$ - good financial situation, bankruptcy risk between 10% - 30%;
- $0.04 < Z < 0.10$ – alert, bankruptcy risk between 30% - 65%;
- $- 0.05 < Z < 0.04$ – danger, bankruptcy risk between 65% - 90%;
- $Z < - 0.05$ - failure, bankruptcy risk > 90%.

The values of the score-function determined for two financial years, based on the hypothetical data extracted from the financial statements of the entity selected as a case study, are presented in table no. 2:

Table no. 2
Calculation of the Z score-function – the Conan-Holder model

Variables (rates)	Year N-1	Year N
$R_1 = \text{gross surplus from operating/total liabilities}$	48763/78650 = 0.62	69216/72100 = 0.96
$R_2 = \text{permanent capital/total assets}$	179680/236420 = 0.76	199511/259104 = 0.77
$R_3 = \text{current assets – inventories/total assets}$	118210/236420 = 0.50	158054/259104 = 0.61
$R_4 = \text{financial expenses/turnover}$	4067/203322 = 0.02	6996/233194 = 0.03
$R_5 = \text{employee benefits expenses/added value}$	46795/95500 = 0.49	52800/120000 = 0.44
The Z score-function	0.329	0.427

The values of the score-function, which are higher than and increasing from the limit of 0.16, indicate a very good financial situation, the bankruptcy risk being less than 10%. The entity is solvent, trustworthy and can qualify for loans.

The Romanian Commercial Bank model uses a set of rates and performance ratio to determine an entity's credit worthiness for the granting of a credit on a score scale of six criteria (table no. 3).

Table no. 3
Criteria for assessing financial credit worthiness

Specification	Limited values	Points
0.	1.	2.
Current ratio	< 80%	- 2
	80% - 100%	- 1
	100% - 120%	+ 1
	120% - 140%	+ 2
	140% - 160%	+ 3
	> 160%	+ 4
0.	1.	2.
Solvency	< 30%	0
	30% - 40%	+ 1

	40% - 50%	+ 2
	50% - 60%	+ 3
	60% - 70%	+ 4
	70% - 80%	+ 5
	> 80%	+ 6
Financial profitability	< 0%	0
	0% - 10%	+ 3
	10% - 30%	+ 4
Asset turnover	< 5	+ 1
	5 - 10	+ 2
	> 10	+ 4
Dependence on markets Supply: from the country (A_t); from abroad (A_i) Selling: in the country (D_t); abroad (D_e)	$A_t > 50\%$; $D_e > 50\%$	+ 4
	$A_i > 50\%$; $D_e > 50\%$	+ 3
	$A_t > 50\%$; $D_t > 50\%$	+ 2
	$A_i > 50\%$; $D_t > 50\%$	+ 1
Guaranties	Charged deposits	+ 4
	Pledges, mortgages	+ 3
	Acquisitions of credits	+ 2
	Cession of debentures	+ 1

Based on the scale, any entity can be presented in table no. 4. introduced in one of the categories

Table no. 4
Entities' classification according to the credit worthiness

Category	Points	The economic-financial situation – degree of risk
A	> 20	Very good, credits can be granted
B	16 - 20	Good, credits can be granted
C	11- 15	Oscillating, presents high risk
D	6 - 10	Special risk, does not present credit worthiness guarantees for being granted a credit
E	0 - 5	Precarious financial situation, with no credit worthiness guarantees

Entities that accumulate over 16 points (categories A and B) present a good economic and financial situation and can benefit from bank loans. Those that accumulate between 11 - 15 points show a high degree of risk, the granting of any loan involving a relative high risk premium. These entities should be watched from the solvency point of view in order to recover the loan at the first sign of

disbelief. Categories D and E do not present sufficient credit worthiness guarantees and can not qualify for loans.

The method of scoring points for the assessing criteria for financial credit worthiness of the entity selected for study on the basis of the data extracted from its financial statements is illustrated in the following table:

Table no. 5
Scoring points scale

Specification	Year N-1		Year N	
	Level	Points	Level	Points
Current ratio = (current assets/current liabilities)x100	(141852/74500) x 100 = 190.40	4	(181373/70000) x 100 = 259.10	4
Solvency = (equity/total capitals) x 100	(175390/236420) x 100 = 74.18	5	(201880/259104) x 100 = 77.91	5
Financial profitableness = (gross profit/equity) x 100	(28700/175390) x 100 = 16,36	4	(41000/201880) x 100 = 20.30	4
Asset turnover = turnover/current assets	203322/141852 = 1.433	1	233194/181373 = 1.285	1
Dependence on markets (%)	$A_t > 50; D_t > 50\%$	2	$A_t > 50; D_t > 50\%$	2
Guarantee	Mortgage	3	Mortgage	3
Total		19		19

The score made by our entity classifies it in the B category, which means a good economic-financial situation and may benefit of bank loans with no risk of default on their maturity.

Conclusions

Bankruptcy is the result of gradual deterioration of an entity's financial situation. It can be anticipated long enough before its occurrence, as we have already shown, using different accounting and banking methods.

In short, the accounting methods aim at the financial ratios balance on short and long term, solvency and liquidity, and the banking methods require the calculation of some score-functions.

Using statistical methods of discriminant analysis, the value of the score-function calculated on the basis of some financial ratios allows us to classify the entities, from the economic-financial point of view, in: healthy, poor and bankrupt.

We also noted that the assessment of the bankruptcy risk is based both on financial ratios and non-financial ones that are specific to some homogeneous realities, respectively to some sectors of activity, which allows us to extrapolate the findings

only, and only if the model of calculation is adapted to the particularities of each sector. A model suitable for the Romanian economy is developed by the Romanian Commercial Bank, where the economic and financial performances have a decisive.

It is not sufficient to use a single method; in time, several methods of analyzing the financial position should be combined, enabling the detection of the first signals of depreciation that anticipate bankruptcy at least three years before it happens.

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EVOLUTION OF THE BANKING SYSTEM BEFORE AND AFTER THE INTEGRATION IN THE EUROPEAN UNION

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Abstract: *The article presents the whole of the regulations voted within 1991-2009 regarding the Romanian banking system reorganization and progress and, implicitly, its alignment to the European Union directives. The research consisted of the presentation of the best banks depending on the market share, profitability, own deposits and capital, but also the financial indicators and banking prudence in system. Based on the analysis of the financial-banking results, I have described the Romanian banking system expansion after the European Union integration and also the problems faced in the framework of the international financial crisis.*

Key words: *banking system, integration, financial indicator.*

1. Introduction

The development of the banking system in Romania has been “spectacular” these latest years, because of the credit quick dynamics maintained by a strong economic growth and the European integration prospect. This has been possible thanks to the Romanian banking sector opening towards the external competition and the substantial capital infusion from the international institutions.

2. Evolution of the Banking System before the Integration in the European Union

Because of the historical evolution and peculiarities engendered by the requirement of the integration in the European Union, the Romanian banking system has its own features and problems which are common to the banking systems from other countries.

Taking into account the model of the European structure of a banking system, a

banking system on two levels has been created: the National Bank of Romania, as the central bank, and the commercial banks.

The banking legislation adopted in 1991 stimulated the commercial banks part in economy, which is strongly connected to their quality of main intermediary in the relationship savings-investments, which is decisive for the economic growth.

Considering the role and importance held by banks as regards the good operation of the economic agents and economy as a whole, a modern system has become necessary, which should meet the requirements of all the categories of economic agents in the market economy, as well as of the physical persons–beneficiaries of credits, depositors etc. This need has been perceived since the period when the Romanian banking system started setting new regulations.

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Therefore, many important changes took place in the banking activity in Romania between 1991 and 2009.

Between 1991 and 1996, the banking system was organized through the Law no.33/1991, legislating on the commercial banks activity, Law no.34/1991, legislating on the statute of the National Bank of Romania as the central bank, as well as different governmental decisions, as follows:

- The National Bank of Romania – NBR – was reorganized in order to carry out the tasks of a central bank, having the following functions: money issue, monetary stability assurance, country currency reserves administration, survey of the foreign payments balance execution, banking activity survey. Banca Comerciala Romana SA (The Romanian Commercial Bank) was established in order to carry out the commercial activities of the National Bank of Romania. In order to maintain the money circulation at a proper level, the National Bank of Romania also ensures the connection between the credit dimensions and the in circulation money volume.
- The banks (Romanian Bank of Foreign Trade, Agriculture Bank, Investments Bank) were transformed into commercial banks, with state capital and Romanian private capital, a new organization and operation statute being approved based on a Government Decision.

Between 1996 and 2000, a new laws packet has been issued: Law no.83/1997 regarding the banks privatization, Law no. 58/1998 regarding the commercial banks operation system, Law no.83/1998 regarding the banks liquidation and reorganization and the banking system reform continued, having the following positive consequences:

Romanian and foreign private capital banks have been established, as well as branches of different foreign banks. The established banks were obliged to open correspondent accounts with the National Bank and to make minimum reserves in compliance with the regulations issued by the National Bank of Romania and also other accounts, as well as to refinance from the latter, under established terms;

The National Bank of Romania established, by means of its regulations, the minimum level of cash-deposit, the way of calculation for the cash-deposit rate of a commercial bank and the provisions system;

NBR established the credit norms for physical persons at the beginning of 2000 and this allowed a rapid progress of physical persons crediting, activity almost inexistent until 2000.

A remarkable evolution of the Romanian banking system can be noticed within the period 2000-2004 when the following achievements were registered, through the Law no.200/2002 regarding the credit cooperatives organization and operation, amendments of the Laws 101/1998, 83/1998, 58/1998, the new bank law issued in 2003 and other NBR's regulations: an alignment of the Romanian banking system to the European Union directives by means of a domestic and international transparent reporting system, adoption of the Basel I regulations, increase of NBR's authority as surveying body of the banking activity and a clear definition of the bank adjudging bankrupt.

The issuing of the new bank law in 2003 concerning the insurance of a unitary regime for all the credit institutions, electronic settlement of the money and the activity concerning the electronic credit, settlement of the funds transfer outside the country and conversely, legalization of NBR's independence as the regulating institution for the banking field,

establishment of the overdraft crediting system for commercial banks, carrying out of the accounting reports in the IAS system and establishment of the Credit Office as responsible for risk monitoring and for the physical persons credits reimbursement – are other new regulations which have been adopted in the Romanian banking system in order to develop it.

Within the period 2004 - 2006, through the Law no.312/2004, concerning the adoption of the National Bank of Romania articles of association, law no. 253/2004 regarding the final character of the settling up in the payment systems and in the settlement systems, Law no. 278/2004 and Government Ordinance no.10/2004 concerning the judicial reorganization and bankrupt procedure for the credit institutions, Government Emergency Ordinance no. 98/Dec.6th 2006 concerning the over survey of the financial institutions included in financial conglomerates, the Romanian banking system development went on. By means of the above mentioned regulations, the main responsibilities of NBR were established, the Credit Office became operational in August 2004 and the judicial reorganization and bankruptcy procedure of the credit institutions were established, as well as the over survey of the financial institutions included in financial conglomerates. Other projects carried out during the same period were: implementing the provisions of the New Agreement of Capital – Basel II, whose most important objectives were the assurance of a more flexible framework, in order for the capital needs establishment to coincide with the credit institutions risk profile and premises creation for the financial-banking system stability funding, ReGIS, SaFIR and SENT systems development for the central bank operations, inter banks transfers, payments in LEI, settling up in real time and with an

immediate finality, as well as for the deposit and settling up of the public securities and deposit certificates issued by NBR.

3. Evolution of the Banking System after the Integration in the European Union

The process of the Romanian banking system modernization have gone on between 2007 and 2009 and new regulations have been adopted, the most important of them being: Law no.227/2007 and the Emergency Ordinance no.25/2009 regarding the approval, supplement and modification of the Government Emergency Ordinance no.99/2006 concerning the credit institutions and their adequate capital. In January 2007, NBR has published the monthly Gazette of the European Central Bank on a website. As a result of the integration in the European Union, the banking community of Romania is represented in EPC structures by the Romanian Banking Association and takes an active part in the SEPA project implementation and the accounting regulations meet the requirements of the European directives, applicable to all the credit institutions, non-banking institutions and deposit warranty fund inside the banking system. At the same time, the following actions are carried out: classification and provisioning of the credits and investments, certification of the credit institutions, Romanian legal persons and Romanian branches of credit institutions from third countries, transformation of the financial institutions in credit institutions, appraisal of the origin third country surveying framework compliance and checking the equivalence of the survey done by the qualified authorities from third countries with the one governed by the provisions of Government Emergency Ordinance no. 99/2006 concerning the credit

institutions, their adequate capital and credit institutions status modification, Romanian legal persons and Romanian branches of credit institutions from third countries.

The first year of integration in the European Union triggered the growth of the economic activity which has consequences for the banking area as well. The bank market registers the highest increase in the Romanian banking history, through the establishment of four new banks within the first three quarters of 2007 only: Millennium Bank, La Caixa, Fortis Bank and Finicredito.

4. Romanian Banking System: Structure and Features

On the whole, 2007 was an excellent year for the banking market, the assets weight in GDP increased by 11.5%, reaching a level of 61.8%. The banking concentration was maintained at a high level, the first five banks from the system owning 56.4% from the total of the assets, since the Romanian majority capital owned a market share of 12% from the assets, with 0.6% more than in 2006, in contrast to the foreign banks branches which registered a fall of 5% in the assets weight.

2008 is the year of surprises for the banking area. On the one hand, as a result of the increasing competition, on the other hand, because of the decreasing banking incomes due to the slow down in external financing and to the depreciation of the ratio credits-deposits; consequently, fewer customers were attracted by banks.

The banking system included another member – BCR Bank for dwellings (from Erste Greek group), which is present on a weakly niche covered, the one of the banking market for dwellings, and so the number of the institutions present in the NBR register became 37.

Table 1
Type and number of credit institutions

Types of credit institutions	Number
- commercial banks	37
- branches of foreign banks	10
- cooperative credit	3

Source: <http://www.banknews.ro/cauta.php?s=15&q=bnr>

During 2008, the domestic banking system assets reached a level of 73.4%. The concentration degree of the banking system registered a decreasing trend, the first five banks concentrating more than half of the banking system assets - 54.6%, 3% less of the market share as compared to the second quarter of 2008. The first three banks in the Top (see table 2) own an impressive share of 42.1%, even if an important decrease was registered as compared to the previous period.

In 2008, the Top 10 structure remained the same as in 2007, even during the whole year 2008 the banking system was on a permanent move, the classification registering important modifications from one quarter to another. Since some banks registered a linear growth, others were pleased by short lasting victories, failing to strengthen the position they had reached at a particular moment.

The first three banks in Top 10 in 2008 are BCR, BRD and Volksbank. A good evolution was registered by Volksbank and Alpha Bank, banks, which were on the 8th and 7th positions in Top 10 of 2007; in 2008, they are on the 3rd and 5th positions, registering a rapid progress. Other banks such as: Reiffeisen Bank, Banca Transilvania, Unicredit Tiriatic and Bancpost lost one - two positions compared to the previous year.

BCR, holding the first position in Top 10, registered the most abrupt diminishing of its assets in 2008, from 26,2% in 2006 to 20,4% in 2007. Even if BCR was under

an in-progress reorganization process, it continued its expansion: through the opening of specialized centres for loans on mortgage granting – *Centrum Imobiliare* – a contract signed with the Agency for Payments and Agriculture in order to finance the farmers, increasing the number of the installed ATMs, diversifying its offer for bank products and services (fixed interest credit), approaching various niches from students to investors, but also launching social responsibility programs (CSR) such as the partnership with the H Foundation.

A very good evolution was registered by BRD Groupe Societe Generale in spite of the reduction by 3.4 p.p. of its market share. The highest profit, a ratio costs/incomes of 39%, an almost unitary ratio between deposits and credits (88%), the most extended territory network after the giant CEC – these are a few of BRD's strengths. The bank maintained its equilibrium in the two business credit lines – retail and corporate and succeeded in covering all the financial services, developing its own brand on the insurance market – *BRD Life Insurance*.

The latest in the top is Volksbank, an outsider in 2007, whose aggressiveness allowed jumps of even four positions. Using a strategy on the retail sector, Volksbank reached a market share of 6.3% in 2008, as compared to 6.1% in 2008.

Sharing the third position for the first time since its holding, Reiffeisen Bank registered a relative defeat, owning a market share of 6.1%, the same as Volksbank. In spite of this situation, the bank had an effervescent activity, directed towards all the business lines and strengthening its position of universal bank. This last period, Reiffeisen brand became more and more visible thanks to the numerous CRS and partnership campaigns with various organizations

(such as Bucharest Police institution for the banking frauds prevention).

Alpha Bank, with a market share of 6.0%, is the fifth in Top 10, outstripping Banca Transilvania with 6 p.p. This growth is the result of an aggressive strategy materialized in the addition of 70 new units, by means of which they “attacked” the retail, the result being more than 300 million of consumption credits and loans on mortgage.

Banca Transilvania lost the fifth position as a result of the decrease of its market share to 5.4%, a surprising evolution taking into account the significant investments in different areas, such as the SMEs (Small and Medium Enterprises), liberal professions (they established the division for Physicians) or the cards line.

Unicredit Tiriac continued to lose its position in the top after the disappearance of HVB Tiriac as a result of the merger with Unicredit, so it held the 7th position in 2008 with a market share of 5.2% after having the fourth position in 2006. The bank, guided towards the corporate sector, developed an aggressive strategy for the retail sector in 2008.

Bancpost is on the 8th position in Top 10 with a market share of 5.0%, registering a reduction of 3p.p. as compared with 2007. Over the recent years, this bank has directed its efforts towards drawing funds, having an excellent saving offer.

As compared to the previous year, CEC kept its position in Top 10, registering a weak growth of the market share up to 4.4% in 2008. The bank is in an increasing progress, focus being put on the credit activity, especially the credit towards the SMEs (Small and Medium Enterprises).

The Dutch bank ING is on the 10th position as a result of the great distance existing between it and the next one at the end of the last year. Even if these latest years it developed a strategy based on

retail products (the advantageous savings recognized for its important incomes account Cont'ROL), ING remains a bank obtained from treasury activities.

Rankings of banks based on market share

Table 2

Nr crt	Banks	Market share of banks %							
		Year 2007				Year 2008			
		March	Jun.	Sept.	Dec.	March	Jun.	Sept.	Dec.
1	BCR	26,0	26,4	26,0	23,8	23	21,7	20,8	20,4
2	BRD	16,0	16,2	15,9	15,5	15,7	15,5	15,0	14,9
3	Volksbank	3,3	2,9	4,3	5,1	5,7	5,9	6,3	6,1
4	Raiffeisen Bank	7,9	6,5	8,0	6,3	5,8	6,0	6,3	6,1
5	Alpha Bank	4,6	4,9	5,8	5,1	5,0	5,4	6,2	6,0
6	Banca Transilvania	5,0	5,2	5,3	5,5	5,7	5,7	5,6	5,4
7	Unicredit Tiriac	na	6,0	5,3	5,1	5,2	5,4	5,4	5,2
8	Bancpost	4,4	4,9	4,9	5,3	4,9	5,1	5,1	5,0
9	CEC Bank	4,2	4,2	4,1	4,2	4,4	4,4	4,4	4,4
10	ING Bank	na	na	na	3,2	na	na	na	3,1

Source: The Financial Market no.11/ November 2007, December 2008

Banks in Top 5 percent in the total system (%)

Table 3

Nr crt	Indicators	Banks in Top 5 percent in total system %							
		Year 2007				Year 2008			
		March	Jun.	March	Jun.	March	Jun.	March	Jun.
1	Active	60,1	59,1	58,0	56,4	55,9	54,7	54,6	53,9
2	Credits	62	61,2	59,1	57,1	55,1	53,8	53,4	52,1
3	Deposits	59,5	59,8	61,9	60,0	54,1	53,2	53,7	52,5
4	Equity	53,2	54,1	48,6	50,1	51,4	49,6	47,9	45,7

Source: The Financial Market nr. 5/May 2008

Indicators of prudent financial and banking system (%)

Table 4

Nr crt	Indicators	Indicators of prudent financial and banking system (%)							
		Year 2007				Year 2008			
		March	Jun.	March	Jun.	March	Jun.	March	Jun.
1	Report solvency	16,16	14,90	14,03	13,78	12,94	12,72	11,79	12,34
2	The rate of equity	8,44	8,18	7,91	7,32	7,02	6,92	6,51	6,23
3	ROA	1,46	1,51	1,9	1,02	1,74	1,65	1,81	1,78
4	ROE	11,63	12,62	10,3	9,40	12,45	16,9	19,71	18,67

Source: The Financial Market no.11/ November 2007, December 2008

The second group, the one of the banks with a market share over 1% outside Top 10, includes 7 banks. The most noticeable evolution, not only in this group, but also in the whole system, was registered by

Agila Piraeus Bank which occupies the 11th position, registering an increasing of its market share to 3.0% in 2008, 0.6 p.p. more than the previous year. The bank froze the loan interests in 2008, when most

of the interests were fluctuating, and changed its strategy from the credit aggressiveness to the savings.

Banca Romaneasca, whose perseverance brought it to 3.0% as a result of the slight increases during the latest quarters, could mention among its strengths the large network of more than 120 units and the good balance between the drawn and the invested resources.

Credit Europe Bank registered a slow, but constant increase up to a market share of 2.0%, being noticed through its business model, which approached the SMEs sector.

OTP Bank registered a weak reduction of its total assets weight in system, of 0.3 p.p. reaching a market share of 1.1% at the end of 2008 and enjoying a reasonable ratio between credits and deposits as a result of an aggressive strategy.

Citibank and the recently rebranded Royal Bank of Scotland (the former ABN Amro) had also over 1% market share, both of them belonging to some foreign groups which do not have a very comfortable status at present.

There are numerous banks with a market share under 1%, among them Banca Italo-Romena, MVB Romexterra and Garanti Bank which are noticed because of their visible increase, attractive portfolio of products and a continuous innovation.

For the banking system, the first year of integration in the European Union was one of expansion of the territorial units, as well as of the banks personnel number. To the 58,090 banks employees registered at the end of 2006 for 4,401 bank units, 7,565 employees were added for the 1,080 units opened within 2007. Even if the effects of the financial crisis at the end of 2008 were felt on the Romanian market, the banking institutions continued to open other 927 bank units, employing other 6,264 employees who have not had their activity object these latest months.

The bank assets weight in GDP rose from 50.3% in 2006 to 61.8% in 2007 and diminished to 39.6% at the end of 2008. The banking system shareholders were rewarded for their invested capitals with a return slowly reduced by 2 p.p. as compared to 2006, to 10.21% in 2007, level ensured by the 757.8 million euro in the banks net profit accounts. In 2008, although the bank capital shareholders returns slightly diminished to 14.92%, it was clearly higher as compared to the results of 2007.

The severe competition on the market and a structure of the assets found under the major influence of the retail credit can explain not only the important reduction of the solvency ratio up to 13.7% in 2007, 2.34% in 2008, but also the marginal growth of the volume of remaining and not sure credits volume reported per the bank assets. The costs of the excessive speed of brokerage increase triggered the increase in the provisions by 300 million Euros in 2007 to 462 million euro in 2008, which represented the highest nominal increase in the costs structure at the banking system level. As a matter of fact, in the banking costs structure, the provisions costs weight increased from 19.8% to 23% in 2008, dynamics which started questioning the future level of profitability. On the first place as regards the speed of the banking costs increase there are the administrative and investment costs with 89.9%, the banks having spent around 325 million Euros in 2008 for strengthening their market position. As a result of the banking expansion strategy practiced at the system level, the ratio costs/incomes deteriorated from 72.9% in 2006 and 75% in 2007 up to 78% in 2008.

From the point of view of the system profitability, the banks structure in Top 10 is unchanged, the first places being occupied by BCR and BRD with a quota of 33.6% and 28.2%.

As a conclusion, the accomplishment of this system of banks' organization triggered an important increase in the banking activity and in the development potential, not only for the area of juridical persons customers, but also for the area of physical persons on the medium and long term.

The development of the specific operations, services and instruments will allow, in time, the diversification of the banking activity. This will result in the competition increase, the former sectors being replaced by a real banking specialization which will depend on the nature and volume of the operations carried out, the category of customers to which each bank will address and, not least, the quality of the services offered. The new banks have the possibility to carry out a modern banking activity from the beginning, by using computer systems; they can also attract the most efficient new companies as customers.

The main goal of the banking market will remain to offer additional advantages to the banks customers, advantages which will result from two important grounds:

1. The customer will benefit from the increase in the freedom of choice by redirecting the activity towards institutions which offer, for smaller prices, products and services which better meet the customer needs or some services which were not available previously.
2. The prices (tariffs, interests, commissions) for most of the financial products and services have to diminish as a result of a bigger domestic market. The competition will be the main factor in price reductions.

At the same time, banks must embrace new models of business which should include features such as: a trustworthy

brand, steady distribution partnerships, a diversified and continuously renewed products portfolio and efficient operational structure regarding the costs. More flexible models of business and of organization as regards the financial-banking institutions will allow them to adapt to the market changes more easily and to renew their products rapidly, the banks having as an advantage the dimension, products portfolio diversification and various financing sources. Due to the lack of external financing, which has been strongly felt because of the financial crisis, the banks should pay more attention to the selling activity. The specialized entities belonging to the banking groups can be concentrated on the marketing and risk management and can help banks diversify their portfolio and also refinance their activity.

The banks present on the market must mainly rely on flexibility and innovation and, at the same time, ensure financing sources at reduced costs taking advantage of the opportunity to strengthen their position on a market where the majority of the competitors are in abeyance.

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ECONOMIC THEORY

GENDER WAGE GAP: EVIDENCE FROM THE HELLENIC MARITIME SECTOR 1995-2002

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Abstract: *The paper explores gender wage gap as well as educational level, work experience and age in the Hellenic maritime companies by utilizing the European Structure of Earnings Surveys of 1995 and 2002. The nonparametric statistical analysis used shows that even though the male-female wage distributions were not identical in 1995, so discrimination was present, though, we did not find evidence of this gap in 2002. Hourly wage rate which proved to be independent of educational level, while dependent on work experience and age, and for both latter characteristics, much more for females than for males, may explain the elimination of the gender pay gap at the end of the investigation period.*

Key words: *Gender pay gap, Male-Female wages, age, educational level, work experience, Nonparametric Statistics.*

1. Introduction

The wage gap between men and women amounts to 13% of the total Hellenic economy, during the period 1995-1998. This gap is noticeable amongst the 19 developed countries of the Organisation for Economic Cooperation and Development (OECD) and the sixth smallest among the European Union (EU) country members (OECD, 2002). Specifically, in the private (public) sector, the gender wage gap reached 21% (9%), according to evidence from the European Community Household Panel (ECHP, 1998), while it was computed at 23% for the private sector according to the European Structure of Earnings Survey

(ESES, 1995) (Barry et al., 2002).

Over the period 1974 - 1999, the evolution of wage inequality between genders followed a path similar to that of the private return to education (Cholezas and Tsakloglou, 2004; Odink and Smits, 2001).

In Hellas, for the 1960s, Kanellopoulos (1982) estimated simple Mincer's models concentrated on human capital variables and concluded that discrimination constituted approximately 60% of the observed gap between men and women or it falls to 30% when additional independent variables are added to the model. For the late 1970s, Psacharopoulos (1982) estimated that women's wages

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barely reached 65% of those of men and that approximately 90% of this gap was generally due to discrimination, which was not the case only for the educated working women within occupational groups. For the 1980s, Patrinos and Lampropoulos (1993) concluded that almost the total wage differential by gender could be attributed to discrimination. Kanellopoulos and Mavromaras (2002) and Kanellopoulos, Mitrakos and Mavromaras (2003) estimated it at 27.5% in 1982 while it increased rapidly reaching 87.9% in 1999.

The wage gap in Hellas is also attributed to gender discrimination by recent studies using modern econometric techniques, e.g. quartile regression or decomposition techniques on Household Budget Surveys (HBS), Hellenic data (Papapetrou, 2004), or on private sector companies (Cholezas, 2004b). Especially in Papapetrou's (2004) paper, the gap was found larger in the tails of the wage distribution, and more specifically in the lower bound (60.7%).

Kioulafas et al. (1991) as well as Kanellopoulos and Psacharopoulos (1997) estimated the discrimination based on public or private attribute of the employer, finding evidence about the smaller gender pay gap, the return on education and experience for workers in the public sector.

Furthermore, in spite of the statistical significance of education in wage inequality in Hellas, for the last three decades its falling return has also been proved (Lazaridis et al., 1989; Tsakoglou, 1992, 1993; Mitrakos and Tsakoglou, 1997a, 1997b, 1998), as stated by the human capital theory especially in the lower bound of the distribution, either within the same working group or between workers and private professionals (Kanellopoulos, 1985; Tsakoglou and Cholezas, 2001). Here, as in all western European countries, these returns are consistent with excess supply of skilled

labour or university graduates.

In the present paper, we test, for the first time, the hypothesis concerning human capital characteristics of Hellenic shipping companies. We provide new evidence on the relationship between wages and gender, educational level, work experience and age based on distribution-free methods. We differentiate on the previous studies by not considering the determinants of gender wage gap or wages of males and females. Instead, we are interested in investigating the homogeneity of our dataset and the correlation or dependence of the aforementioned variables.

The paper is organized as follows. In the next section we discuss some theoretical underpinnings. The third section contains a description of the data and the results of the nonparametric estimations. Concluding remarks are given in the final section.

2. Theoretical Underpinnings

Studies that explore gender wage gap usually refer to cross-sectional data national or international, aggregate or by sector, aiming at interpreting it with regard to a) the productivity differences between genders, and the discrimination against women, within sectors and/or occupations, b) the different evaluation of female against male occupations or even job positions, c) the different distributions of men and women between sectors and/or occupations.

These factors are suggested by the neoclassical human capital theory and the economic theory of labour market discrimination (Becker, 1993), where the gender pay gap is due to productivity differences, which, in turn, emerge from differences in human capital held by individuals. The latter are explained mainly by the different occupational or educational choices of men and women, made usually before their entrance in the labour market, a feature known as the pre-

market discrimination. Moreover, they are directly affected by the different social roles intended for each sex and hence by their social psychology. Nevertheless, economists are interested in market discrimination, which is the unfair treatment of women in the labour market, as regards their wage, given that they possess the same human capital as men. Therefore, according to neoclassical economists, women are paid less than men because, on the one hand, the latter have a lead on average in human capital and, on the other hand, because they are discriminated by employers partly due to their gender.

Furthermore, it has been proved empirically that phenomena of employment segregation based on gender exist. This is predicated on the assumption that men and women do not offer the same employment in a given job position, which proves to be a statistically significant factor of the gender wage gap. Employment segregation based on gender is expressed in a series of characteristics, such as occupation, sector, or employment contract, which may be full-time or part-time with a definite or indefinite time frame. Among different forms of employment, segregation by gender, occupational segregation, as a social phenomenon, has received interest in international literature (Rubbery, et al., 1996). Therefore, the undervaluation of women's employment, due to the non-recognition of their skills, expands the wage gap between men and women. Occupational segregation is directly connected to the wage gap, since the entrance barriers to privileged occupations force women to concentrate on fewer occupations than men (Bergmann, 1974).

The undervaluation of women employment compared to that of men, gives rise to a broader definition of wage discrimination per gender. Given equal

employment, the unequal wage decomposition in two components refers to the quantity of goods and services produced by women and their value. In both cases, the low assessment of women's labour supply "justifies" their lower wage.

Relevant empirical literature (see for instance, Blau, 1998; Blau and Ferber, 1987; Blinder, 1973; Cain, 1986; Dolton and Makepeace, 1986; Dolton and Kidd, 1994; Greenhalgh, 1980; Gunderson, 1989; Kim and Polachek, 1994; Miller, 1987; Mincer, and Polachek, 1978; Mincer and Ofek, 1982; Neumark, 1987; Oaxaca, 1973; Willis, 1973) focuses on the identification of the appropriate econometric model to estimate the determinants of the wage gap, as well as its decomposition, improving, for that matter, the existing techniques.

3. Data and Estimation Results

We use raw data drawn from the most recently published reports by EUROSTAT European Structure of Earnings Surveys (ESES) sampled in 1995 and 2002, which was carried out in Hellas by the National Statistical Service of Greece-Hellas (NSSG) [1]. We concentrate on Hellenic maritime companies located in Piraeus and focus on characteristics such as gender, gross hourly wage rates, [2] [3] age, educational level and work experience of full time employees, with the exception of over time work.

Table 1 describes distribution patterns through summary statistics which can help us deduce some "stylized facts". The four observed frequency distributions, corresponding to age, level of education, work experience, and hourly wage rate, are positively skewed with diachronic declining kurtosis and increasing dispersion, more for male than for female. Their central tendency, measured by the median, has shifted to the right by 22% for male (from 6€/hour in 1995 to 7.3€/hour in

2002) and by 60% for female (from 4.3€/hour in 1995 to 6.9€/hour in 2002). As a consequence, we observe a great reduction in the gender pay gap, 74% on average. By contrast, we observe (a) the significant difference in the upper end of the male-female wage distributions, even though it was reduced from nearly 3:1 in 1995 to 1.7:1 in 2002 as it can be seen from relevant ratios of maximum hourly

wage rates; (b) the important increase in the range (9% for male and 94% for female) and the high relative variability (coeff. of variation – CV- more than 50% for male and slightly less for female); (c) the decline of the kurtosis degree, suggesting a great diachronic rise in the wage gap within sex. This evidence seems to occur much more for females than for males.

Table 1										
Summary Statistics for the Hellenic Maritime Sector										
		n	Min	Max	Med.	Mean	Stdev	CV	Skew	Kurt
Panel I: Total										
Age	1995	238	19,0	59,0	33,0	34,1	9,1	27%	0,6	-0,4
	2002	174	18,0	70,0	35,0	36,8	10,1	27%	0,5	-0,3
Level of Education	1995	238	1,0	7,0	3,0	3,5	1,7	50%	0,8	-0,2
	2002	174	1,0	7,0	3,0	4,5	1,9	41%	0,3	-1,6
Work Experience	1995	236	0,1	25,7	3,0	4,8	5,2	107%	1,8	3,7
	2002	174	0,0	30,0	3,0	5,2	6,1	116%	1,9	3,6
Hourly Wage Rate	1995	225	1,8	27,9	5,3	6,0	3,2	52%	2,3	10,6
	2002	174	2,9	31,3	6,9	8,1	3,9	49%	1,9	7,1
Panel II: Males										
Age	1995	156	19,0	59,0	35,0	35,6	9,5	27%	0,4	-0,5
	2002	91	18,0	70,0	36,0	38,3	10,4	27%	0,5	-0,1
Level of Education	1995	156	1,0	7,0	3,0	3,5	1,9	53%	0,7	-0,6
	2002	91	1,0	7,0	5,0	4,8	1,9	39%	0,0	-1,6
Work Experience	1995	154	0,1	25,7	2,5	4,9	5,4	109%	1,8	3,3
	2002	91	0,0	26,0	4,0	5,5	6,2	112%	1,7	2,3
Hourly Wage Rate	1995	144	1,8	27,9	6,0	6,8	3,5	51%	2,1	8,9
	2002	91	2,9	31,3	7,3	8,5	4,4	52%	2,2	7,9
Panel III: Females										
Age	1995	82	19,0	50,0	29,0	31,3	7,5	24%	0,7	-0,5
	2002	83	20,0	56,0	33,0	35,2	9,6	27%	0,5	-0,8
Level of Education	1995	82	1,0	7,0	3,0	3,5	1,5	44%	1,3	0,9
	2002	83	1,0	7,0	3,0	4,2	1,8	44%	0,7	-1,2
Work Experience	1995	82	0,1	25,3	3,3	4,7	4,9	104%	2,0	5,1
	2002	83	0,0	30,0	3,0	4,9	5,9	121%	2,2	5,6

Hourly Wage Rate	1995	81	1,8	9,9	4,3	4,6	1,7	37%	1,0	1,1
	2002	83	3,2	18,8	6,9	7,6	3,3	44%	0,9	0,4

Notes

n=sample size, Min (Max)=minimum (maximum) observation, Med.=Median, Mean=arithmetic average

Stdev.=standard deviation, CV=coeff.of variation, Skew=coeff.of Skweness, Kurt=coeff.of Kurtosis

Age and work experience are measured in years while hourly wage rate in euros.

The ordinal scale of the variable 'level of education' is

1 primary school, 2 secondary school, 3 lycee, 4 vocational training,

5 higher technological educational institute, 6 university, 7 post-graduate degrees.

Because of the unknown shape of the population distributions our random and independent samples come from, we choose to proceed with non-parametric methods. The properties of random and independent samples are verified because of the authoritative origin of our data (NSSG, EUROSTAT).

		Mann-Whitney U test (1)	Spearman's Rank Corr.coeff. Test (2)	X2 test for Independece (3)
Panel I: Gender Gap (Male-Female)				
Age	1995	3,40 [,0007]	-0,00 [,9938]	3,9 (6) [,6888]
	2002	-1,56 [,1196]	0,19 [,0834]	11,9 (9) [,2143]
Level of Education	1995	-1,17 [,2421]	0,00 [,9643]	12,8 (2) [,8873]
	2002	1,21 [,2260]	-0,05 [,6445]	19,7 (16) [,2356]
Work Experience	1995	-0,12 [,9083]	-0,05 [,6538]	12,5 (9) [,1847]
	2002	-2,42 [,0155]	0,06 [,5756]	6,4 (6) [,3804]
Hourly Wage Rate (HWR)	1995	5,78 [7,4E-09]	-0,00 [,9859]	16,8 (15) [,3288]
	2002	-2,03 [,0420]	0,14 [,2027]	13,0 (16) [,6699]
Panel II: Total				
HWR - Gender	1995	---	-0,32 [,0000]	38,1 (4) [,0000]
	2002	---	-0,04 [,6134]	1,82 (5) [,8739]
HWR - Age	1995	---	-0,34 [,0000]	77,7 (12) [,0000]
	2002	---	0,27 [,0003]	70,5 (15) [,0000]
HWR - Lev. of Educ.	1995	---	0,40 [,0000]	81,5 (20) [,0000]
	2002	---	0,17 [,0295]	41,3 (25) [,0218]
HWR - Work Exper.	1995	---	0,06 [,3479]	20,9 (12) [,0522]
	2002	---	0,34 [,0000]	64,5 (15) [,0000]

Panel III: Males				
HWR - Age	1995	---	-0,34 [,0000]	65,1 (15) [,0000]
	2002	---	0,006 [,9565]	11,2 (12) [,5086]
HWR - Lev. of Educ.	1995	---	0,33 [,0000]	62,3 (25) [,0000]
	2002	---	0,16 [,1346]	20,7 (16) [,1921]
HWR - Work Exper.	1995	---	0,09 [,2638]	25,4 (15) [,0444]
	2002	---	0,05 [,6049]	22,6 (12) [,0315]
Panel IV: Females				
HWR - Age	1995	---	-0,34 [,0018]	19,5 (6) [,0034]
	2002	---	0,19 [,0879]	32,5 (12) [,0012]
HWR - Lev. of Educ.	1995	---	0,34 [,0023]	26,1 (12) [,0105]
	2002	---	-0,14 [,2176]	10,3 (16) [,8529]
HWR - Work Exper.	1995	---	0,26 [,0173]	25,7 (9) [,0023]
	2002	---	-0,004 [,9696]	36,4 (8) [,0000]

Notes

Numbres in brackets indicate p-values, while before of them the numbers in parentheses give the degrees of freedom.

See also notes of table 1.

The gender pay gap hypothesis has been tested through (a) the Mann-Whitney U test or Wilcoxon rank sum test, which enables us to ask the null “the distributions of men and women wages’ populations are identical”, (b) the Spearman rank correlation coefficient (ρ_s) test, which provides a measure of the strength of linear correlation, if there is such, between ranks of men-women wages or wages-gender in the aggregate sample, (c) the chi-square test of independence, which lets us know whether two classifications are independent, e.g. men-women wages or wages-gender.

In panel I, line “Hourly Wage Rate-1995”, column 1 of Table 2 it is shown that at the conventional significance level ($\alpha=5\%$) we reject the null that in 1995 the two samples of men and women hourly wage rate (HWR) have been drawn from the same population, i.e. we do not reject the hypothesis that at the beginning of the

sampled period (1995) the gender pay gap is statistically significant in the Hellenic maritime sector. This evidence of gender wage discrimination is equally confirmed, first, by the acceptance of the null that men and women HWR are uncorrelated variables and independent as well (Table 2, panel I, line “Hourly Wage Rate-1995, columns 2, 3), and, second, by the rejection of the null that HWR and gender are also uncorrelated and independent (Table 2, panel II, line “HWR-Gender-1995, columns 2, 3).

In contrast, in 2002, the Mann-Whitney U test conducted us to not reject the null, though accepting the borderline p-value of 0.042, that men and women HWR samples are drawn from the same population (panel I, line “Hourly Wage Rate-2002”, column 1 of Table 2), i.e., we have evidence that the gender pay gap, still existent in 1995 in the Hellenic shipping companies, has been eliminated in 2002. The above statistical

decision is confirmed, first, by the great reduction in the Spearman's rank correlation test's p-value (0.20) and the relevant increase in the corresponding independence test (Table 2, panel I, line "Hourly Wage Rate-2002, columns 2, 3), and, second, by the acceptance of the null that HWR and gender are uncorrelated and independent (Table 2, panel II, line "HWR-Gender-2002, columns 2, 3), translating that there is not gender pay gap any longer.

The elimination of the gender pay gap, in the Hellenic maritime sector, during the 1995 - 2002 examination period, apart from the socio-political maturation reasons, may be justified by:

- A. The amelioration of the "education level": the central argument of the neoclassical theory of human capital about the lower women than men productivity may be present in 1995 but not in 2002, which contributes to a reduction in the pay gap. This can be verified, for both genders, even though much more for females, by the statistical significance of correlation and dependence between HWR and level of education in 1995 and the corresponding 2002 reversal (Table 2, panel II, III and IV, line "HWR- Lev. of Educ., columns 2, 3), when wages and level of education are now independent. In its turn, this may be attributed to the innovative, for Hellas, degrees in Maritime Studies from the University of Piraeus, from which the first class of graduates was in the 1994-95 academic year. The latter coincides with the beginning of our examination period. Eight classes since then could help staff local shipping companies and the scarcity in skilled employees reversed to the excess supply of demand.
- B. The increasing relevance of "work experience" and its compatible "age": The obvious trend in the aggregate

sample of increasing correlation and dependence between HWR and work experience (Table 2, panel II, line "HWR-Work Exper., columns 2, 3), over the investigation period 1995-2002, is much more in accordance with the female sub-sample than with the male one (Table 2, panel III & IV respectively, line "HWR-Work Exper., columns 2, 3). The gradual social insurance reforms of the '90s which cut down the early retirement of working mother employees, may be a well defined explanation of the increasing dependence between wages and work experience, i.e., because there are more women in Hellenic shipping occupations, their work experience accounting for better remuneration. The latter is also true for the qualification of age, which is not independent of the HWR for women henceforth (Table 2, panel IV, line "HWR-Age, columns 2, 3). Thus, two more human capital characteristics achieved by females contributes to the reduction in the gender pay gap.

The evidences of the gradual independence of HWR and educational level while dependence on work experience, seems to verify the predictions of endogenous growth (Romer, 1986; Lucas, 1988) about the human capital accumulation which is achieved more from learning by doing, than from the educational system.

4. Concluding Remarks

We investigated, for the first time, gender wage gap in the Hellenic shipping companies, located in Piraeus-Hellas, utilizing samples from the official European Structure of Earnings Surveys of 1995 and 2002. We used non-parametric statistical methods so as to estimate the heterogeneity and independence of male and female population distributions. From

several tests, we found evidence that the gender wage gap was present in 1995 but is eliminated in 2002. The evidence found that the education level in independent, much more for females than for males, and increasingly diachronic (1995-2002), may explain why the above gap has been eliminated. Work experience and age of women may be two more characteristics of the human capital neoclassical theory which seems also to explain the above pay gap elimination. The latter qualifications of the increased women participation in the Hellenic maritime labour market may be well justified by social insurance reforms of the 90s which reduced the early retirements of working mother employees.

The econometric examination, which is in our immediate priorities, is necessary in order to clarify the indications that emerge from the above statistical tests, so as to estimate the importance of the determinant factors of the gender wage gap in Hellenic shipping companies.

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Notes

1. In 1995 the survey included 3,584 companies and 52,975 employees, while 2,907 companies and 49,153 employees were included in 2002.
2. This includes ordinary gross wages and bonuses, the additional pay for employment that is not provided by the terms of the employment contract and which is not over-time work, and the wages for extracted work, beyond the normal employment, which was not considered as over-time.
3. The reference months are October 1995 and 2002 respectively.

THE INFLATION RATE DETERMINED AS A CHANGE IN THE GDP DEFLATOR AND IN CPI

Adriana LITRA¹

Abstract: The paper aims at presenting two of the most applied methods in determining the inflation rate, based on the GDP deflator and Consumer Price Index, and comparing the calculation proceedings, advantages and drawbacks of each of them. Even if the results are close as a value, the structures of consumption taken into account in measuring each index are quite different, one of them evaluating the price raise for all the goods/services produced inside the country borders, the other starting the calculations by composing a typical market basket for a typical urban consumer.

Key words: GDP deflator, consumer price index, typical market basket, inflation rate.

1. Introduction

In economics, inflation is a rise in the general level of prices of goods and services in an economy over a period of time. At the consumer level, inflation is perceived as a decline in the purchasing power of the money. Important to be measured, different methods to estimate price raise amplitude have been used, but two of them are customary: inflation rate starting from the GDP deflator, and from consumer price index. The calculation method is different in each case, and also the results vary in some limit, depending on the chosen system.

2. Objectives

The inflation rate calculated from the CPI and GDP deflator, even if it does not vary too much as a value, presents a significant difference between the abilities of each index to capture a consumer's

consumption choices when a change in price occurs. The CPI uses a fixed basket of goods from some base year, meaning that the quantities of goods and services consumed remain the same from year to year in the CPI composition, while the price of goods and services changes. This type of index, where the basket of goods is fixed, is called a Laspeyres index.

The Laspeyres price index, P_L , is defined as:

$$P_L = \frac{\sum_{i=1}^n p_i^t q_i^0}{\sum_{i=1}^n p_i^0 q_i^0} = \sum_{i=1}^n (p_i^t / p_i^0) s_i^0$$

where s_i^0 denotes the share⁴⁾ of the actual expenditure on commodity i in period 0: that is $p_i^0 q_i^0 / \sum p_i^0 q_i^0$.

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The GDP deflator, on the other hand, uses a flexible basket of goods that depends on the quantities of goods and services produced within a given year, while the prices of the goods are fixed. This type of index, where the basket of goods is flexible, is called a Paasche index.

The Paasche index, P_p , is defined as:

$$P_p = \frac{\sum_{i=1}^n p_i^t q_i^t}{\sum_{i=1}^n p_i^0 q_i^t} = \left\{ \sum_{i=1}^n (p_i^t / p_i^0)^{-1} s_i^t \right\}^{-1}$$

where s_i^t denotes the actual share of the expenditure on commodity i in the period t ; that is, $p_i^t q_i^t / \sum p_i^t q_i^t$. The Paasche index is a weighted harmonic average of the price relatives that uses the actual expenditure shares in the later period t as weights.

While both of these indices (GDP deflator and CPI) work for the calculation of inflation, neither is perfect. The paper aims at presenting the calculation steps in both cases, and the differences between them regarding the covering area, accuracy, drawbacks or advantages.

3. Material and Methods

Inflation is defined as the process of considerable and persistent growth of the price level.

Price increase during the interval is a tendency, not a rule for all the goods and services meant to be sold, meaning that some products may present reductions in the price level, others may remain at the same price, but the general effect is an increase in the average level of the prices.

The subject of price measurement is constituted by all goods and services intended to be sold on the market, but their structure on categories, range, quantities

varies depending on the calculation method selected. There may be taken into account either all the goods and services from the internal production, or a predetermined (typical) basket of goods which represents the average expenditure for consumption of a typical urban consumer. In the first case, the calculation of the inflation rate is based on the GDP deflator, in the second case it is based on the Consumer Price Index (CPI).

GDP is calculated as:

- the sum of the added value at every stage of production (the intermediate stages) by all the industries within the country, during a year;
- the sum of total expenditure for all final goods and services produced within the country, during a year (private consumption, investment, government spending and net exports);
- the sum of the income generated by production in the country, during a year.

Using market value in finding GDP has both advantages and disadvantages. The advantages stem from the possibility of totalizing quantities of different items, evaluated by different measurement units. The disadvantages result from the irrelevancy of data time series comparison, because the obtained values, named nominal values, include at the same time price changes during the period, and the real internal product growth.

In the attached table (Annex 1) is presented the nominal GDP evolution, during 1989-2007. Analysed only in itself, the data series cannot provide a real image of the economy's yearly productive capacity. Even if constantly nominal GDP values are above the previous ones, statistical data have only small fluctuations, in addition or in minus, of the real GDP size. Therefore, by applying the real GDP growth rate to the previous real GDP, is generated a data series for the annual internal production volume,

evaluated in the current year prices. In this manner, inter-temporal comparisons may be made.

In order to determine the GDP deflator, it is also necessary to calculate real GDP data series, not related to a common, a base year, but to the previous year, for estimating the value of the same volume of products and services in a year with the prices from the previous year. By dividing the nominal GDP to the real GDP value, results the GDP deflator, and after subtracting 100 from the GDP deflator we may have the image of the annual growth rate of the prices, for the goods and services that compose the GDP.

Another manner to determine the annual inflation rate consists of analyzing the price evolution of the goods and services considered to be part of the typical market basket of a typical urban consumer, during a year¹⁾. The economic indicator is entitled Consumer Price Index (CPI), calculated for Romania by the National Institute of Statistics (NIS).

To determine CPI and the inflation rate, one must follow these steps:

- settling the composition of the market basket for a typical consumer;
- finding prices for the goods and services composing the basket;
- calculating the total cost of the market basket;
- choosing a base year and calculating CPI;
- determining the inflation rate.

CPI is a Laspeyres type index of a fixed base, calculated by the Romanian National Institute for Statistics as a price average based on a goods and services basket, its structure being modified at the beginning of the current year (t) with the results of Family Budgets Statistical Survey made two year ago (t-2). In this manner, a good/service frequently consumed will

have a greater weight inside the consumption basket, and its price change will determine a stronger impact on the CPI. The basket is divided into 3 groups (food, non-food and services), classified in 35 subgroups, totalizing about 92-94 expenses positions²⁾.

Inside the typical market basket, the managed prices items category occupies a quite big percentage (in 2006, food group had 40,7% in total, and non-food and services with managed prices had 20,6%).

Statistical survey uses the following samples⁶⁾:

- sample of localities: comprises 42 localities from urban area, from which have been selected 68 surveying centres;
- sample of observation units: about 6400 units of which 86% are under private ownership;
- sample of goods and services: 1730 assortments having significant weight in population consumption.

One of the main reasons for compiling a CPI was to compensate wage-earners for inflation by adjusting their wage rates in proportion to the percentage change in CPI, a procedure known as indexation. For this reason, official CPIs tended to become the responsibility of ministries of labour worldwide, but most are now compiled by national statistical offices. A CPI that is specifically intended to be used to index wages is known as a compensation index.

Even if GDP deflator and CPI are indicators measuring the same thing (price level), they have different values. The difference results from the distinct structure of the goods and services composing every each of them.

- 1) While GDP deflator refers to goods and services produced within the country, CPI reflects the prices of goods

and services bought by consumers, including the imported ones ³⁾.

2) GDP deflator has a covering area bigger than CPI, including price movement in all national economy, but it is a belatedly indicator, due to the period of time after that information regarding GDP are available, and successive variants emitted regarding the level of accuracy.

3) GDP deflator compares the price of the goods and services produced in the current period, with the prices of the same items from a base period.

CPI compares the price of the typical market basket with the one registered in the previous period. NIS changes the composition of the market basket only after a long interval of time. However, even the shares of different items quantities remain the same, during a year, because of the price changes substitution processes are occurring, leading to the alteration of the weights of different goods/services are counted with in the mass of the index.

4) Also for GDP deflator, and for CPI, price growth is measured in a gross manner, only for its volume, without underlining the part of price raise due to the technologic evolution, quality improvement, innovation, novelty. For instance, in statistics are registered only price raises for electronic equipments, without taking into account their technologic evolution. But the price raise due to the performances improvement is not a inflation process.

5) The accuracy of measuring inflation based on CPI depends on de representativity of the market basket. However, even if at the beginning this was representative, in time the structure

of the consumption often change, but the typical basket is maintain the same, consequently its representativity will decrease.

Innovation leads to more goods and services on the market, persons have to choose between many more alternatives, and the consumers allocate money more efficient in the process of taking the purchase decision, in order to keep up the same standard of living. By holding the same typical market basket, CPI doesn't reflect the change in the purchasing power of the money.

Inflation rate has different values depending on the calculation method, and is different felt among diverse social categories. The perception of price increase is subjectively and varies from a consumer to another. A family with low income feel the inflation pressure by the food price raising, while a household with medium or high incomes also perceive the services price increase ³⁾.

In the urban area, persons are strong affected by the price increase at public utilities (gas, electricity, water). In rural area, people are more affected by base products price increase, or for the price increase of those activities or resources that contribute in the agricultural labour.

In the next table is presented the price evolution (CPI evolution) for the categories composing the typical market basket of the consumer, during 1998-2006.

It may be noticed that at the beginning of the interval, the highest increase rates were registered for education, communication, hotels-restaurants expenses, gradually the index rearranged, in the last years the highest increases were for utilities and dwelling maintenance, beverages and tobacco, transport expenses.

Consumer price indices, for groups of goods and services according to COICOP¹⁾
classification Table 1

	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>Food and soft drinks</i>	147,6	126,2	144,0	136,1	118,3	114,6	109,4	106,1	103,8
<i>Beverages and tobacco</i>	149,8	161,5	129,7	131,1	117,4	122,1	116,2	112,1	117,9
<i>Clothing and footwear</i>	171,6	132,2	129,8	128,0	115,6	111,8	107,6	104,8	103,9
<i>Dwelling maintenance, water, electricity, gas and other fuels</i>	172,1	195,1	163,6	134,2	136,5	119,8	121,5	119,1	114,4
<i>Furniture and household appliances(including repairs)</i>	153,2	143,2	131,8	127,7	118,3	110,6	107,5	105,6	102,7
<i>Health</i>	164,8	141,6	159,0	137,6	119,5	113,9	98,2	102,0	98,8
<i>Transport</i>	151,9	164,0	141,6	139,2	131,1	118,0	112,9	114,0	106,2
<i>Communications</i>	302,6	189,5	152,8	135,6	112,4	113,4	110,4	98,0	98,6
<i>Leisure, rest and culture</i>	162,1	159,2	150,6	126,3	119,9	102,0	109,7	107,2	105,5
<i>Education</i>	361,4	305,1	153,5	140,7	121,8	111,8	112,0	106,1	109,5
<i>Hotels, restaurants and cafes</i>	211,1	158,4	152,1	143,9	127,4	116,6	114,1	113,1	107,9
<i>Miscellaneous goods and services</i>	161,7	158,7	140,0	130,3	121,3	113,6	109,3	106,5	104,2

¹⁾ COICOP classification means *Classification of Individual Consumption by Purpose*, used by EUROSTAT.

Source: *Romania Statistical Yearbook 2007*, National Institute for Statistics, Romania.

4. Conclusions

Both CPI and GDP deflator are current methods in determining inflation rate. GDP deflator may be used in order to cover the price movement of all the intern production, while CPI is a better image of a bigger expense of a consumer in procuring the necessary goods and services for living.

Statistically, inflation rates published are those calculated starting from CPI, one of the reasons being the possibility of adjusting the level of incomes with the same percentage as the price raise, this way maintaining the purchasing power of the consumers. Another important reason is that CPI has the same structure in every

year, while GDP is a macroeconomic indicator affected both by quantities variation, and price increase.

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Calculus of inflation rate using GDP deflator and CPI

Annex 1

Years	Nominal GDP (ROL billion, RON million since 2002)	GDP annual growth rate (as percentage against previous year)	Real GDP (against 1989) (ROL billion)	Real PIB (against previous year) (ROL billion, RON million since 2002)	GDP Deflator	CPI	Inflation rate (based on GDP deflator)	Inflation rate (based on CPI)
1989	800		800,0	800,0	100,0	101,1	0,0	1,1
1990	858	-5,6	755,2	755,2	113,6	105,1	13,6	5,1
1991	2.204	-12,9	657,8	747,3	295,0	270,2	195,0	170,2
1992	6.029	-8,8	599,9	2.010,0	300,0	310,4	200,0	210,4
1993	20.036	1,5	608,9	6.119,4	327,4	356,1	227,4	256,1
1994	49.773	3,9	632,6	20.817,4	239,1	236,7	139,1	136,7
1995	72.136	7,1	677,6	53.306,9	135,3	132,3	35,3	32,3
1996	108.920	3,9	704,0	74.949,3	145,3	138,8	45,3	38,8
1997	252.926	-6,1	661,0	102.275,9	247,3	254,8	147,3	154,8
1998	373.798	-4,8	629,3	240.785,6	155,2	159,1	55,2	59,1
1999	545.730	-1,2	621,8	369.312,4	147,8	145,8	47,8	45,8
2000	803.773	2,1	634,8	557.190,3	144,3	145,7	44,3	45,7
2001	1.167.687	5,7	671,0	849.588,1	137,4	134,5	37,4	34,5
2002	152.017	5,1	705,2	122.723,9	123,4	122,5	23,4	22,5
2003	197.428	5,2	741,9	159.921,9	119,4	115,3	19,4	15,3
2004	247.368	8,5	805,0	214.208,9	115,8	111,9	15,8	11,9
2005	288.955	4,2	838,8	257.757,5	112,2	109,0	12,2	9,0
2006	344.651	7,9	905,0	311.782,0	110,6	106,6	10,6	6,6
2007	412.762	6,2	961,1	366.018,9	112,7	104,8	12,7	4,8

Source: statistical data provided by National Institute for Statistics and National Bank of Romania, and own calculations.

THE GOOD SOCIETY: LESSONS FOR INTEGRATED GOVERNANCE

Cristina NEESHAM¹

Abstract: *In this paper I argue that philosophies of the good society can inform theories of integrated governance in two significant ways. Firstly, they can provide a reasonable foundation for legitimating forms of authority to govern a society across the government, corporate and civil sector. Secondly, they promote value systems that can be constitutive of a normative theory of integrated governance. In developing this argument, I explore conceptions of the good society put forward by Marquis de Condorcet, Adam Smith and Karl Marx, and evaluate the modalities in which the social projects proposed by these authors involve issues of integrated governance. For this purpose, I examine the three theories in relation to three questions: (1) What goals (or objectives) should social action be directed to? (2) What should be the scope and limits of social responsibility lying behind the social authority of each sector (government, market or civil society)? (3) How is social authority to be exercised beyond legislation? What source(s) of legitimacy should one appeal to? Although Condorcet's idea of the natural social order, Smith's system of natural liberty and Marx's political economy of human value have all received their fair share of criticism from empirical theories of society, I suggest that these conceptions are still useful to us today as radical normative experiments. These experiments can have guiding value in formulating models of integrated governance. However, the fundamental differences displayed by these three conceptions reveal the importance of determining whether one can develop models of integrated governance that would accommodate plural, incompatible, or unknown conceptions of the good society.*

Key words: *Good Society, Integrated Governance, Social Theory, Social Progress, Human Fulfilment, Social Humanism.*

1. Introduction: the Good Society and Integrated Governance

The idea of 'the good society' has a long-standing philosophical tradition, almost paralleling the notion of 'the good life' but visibly exceeding the prominence of the latter in modern times. In planning and recommending social action for progress towards desirable goals, working from an ideal of society has emerged as a

methodological requirement for (almost) any normative social theory. Nowhere in the Western philosophical landscape is this trend more obvious than in the modernist paradigms represented by the French and Scottish Enlightenment of the late 18th Century and by Karl Marx's earlier works (such as *The Economic and Philosophic Manuscripts of 1844*).

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After two centuries of ideological triumph and experimental disillusionment, the foundations laid by these theories continue to inform post-modernist social and political philosophy [1].

In the broadest sense, the variety of contemporary discourses about the good society can be reduced to a single common feature: the methodology of evaluating social change by reference to an ideal state of affairs, where this ideal is an intelligible and detailed (often complete) picture of the desirable society. The resilience of this epistemologically overconfident methodology in a post-modernist climate is perplexing. However, it is not regrettable – especially if we are to consider its fertile influence on any discussion of the good governance of the whole society.

If we understand integrated governance to be the totality of forms of authority exercised within society as a complex organisation, both within its elements and the inter-relationships among those elements (Coghill, Tam, Ariff & Neesham, 2005, p. 13), then the central contribution of a normative theory of the good society to a theory of good governance becomes clear. After all, what is the use of a well-governed society if it is not, at the same time, a good society? What significance can we give the form if it is not supported by the substance?

I argue, however, that the impact of a conception of the good society on a conception of good governance can be formulated even more specifically. It refers to the ability of the former to make legitimate and answer (at least) three crucial questions about governance: (1) What goals (or objectives) should social action be directed to?

(2) What should be the scope and limits of social responsibility lying behind the

social authority of each sector (government, market or civil society)?

(3) How is social authority to be exercised beyond legislation? What source(s) of legitimacy should one appeal to?

The first question is justified by the fact that substantive attributes of governance are, by their very nature, nothing else but attributes of actions (Coghill *et al*, 2005, p. 5). It would therefore be very difficult to understand how we would be able to evaluate governance meaningfully without establishing the content of the actions taken in order to exercise the authority referred to in the notion of governance.

With respect to the second question, it is assumed that governance (as an ethical concept) is characterised by the expectation that authority should be closely mirrored by responsibility. These two notions define and legitimate each other. For example, the source and justification of the state's authority in policing crime lies, broadly speaking, in its responsibility to contain crime and protect society from it.

The third question points to a key area that confers practical significance to the study of governance. It assumes that society can improve not only through codified rules of action and behaviour backed by enforcement but also through principles of constructive action which rely solely on moral judgements exercised by any social agent (in the absence of any statutory authority or obligation).

In this paper I examine the classical social projects proposed by Condorcet, Adam Smith and Karl Marx, and identify and evaluate the 'responses' offered by these theories to the three questions outlined above. I then conclude that these conceptions are still useful to us today as radical normative experiments, and suggest

that these experiments could have guiding value in formulating different models of integrated governance. Whether these different models could be unified in a universal formula remains an open question, which requires further investigation.

2. Condorcet and the Natural Social Order

In 1793-1794, Marie Jean Antoine Nicolas de Caritat, Marquis de Condorcet (1743-1794) wrote *Esquisse d'un tableau historique des progrès de l'esprit humain* (referred to here as the *Sketch*). The essay, considered by the author himself to be just a plan or summary of a much more comprehensive project, was written in haste. The project it announced was never undertaken, as Condorcet died shortly after the essay was completed.

The *Sketch* explicitly examines the progress of human civilisation through ten stages, and then postulates what can be expected and should be endeavoured for the future of humanity. This Cartesian plan suggests that the role of a good society is to organise the expansion, accumulation and application of human knowledge to the satisfaction of human needs. In other words, the main direction of social progress is overwhelmingly dictated by the progress of the sciences and the 'arts' (which, in Condorcet's conception, included technology) [2]. I will not expand on this point here.

More interesting for our present discussion is Condorcet's idea of a natural social order, whereby the good society should be organised according to natural principles. What are these natural principles? Condorcet derives these from universal characteristics of human beings, on the premise that the central aim of the

good society is to facilitate human fulfilment.

In sum, Condorcet's argument runs somewhat like this. Human beings are naturally similar in certain respects which are observable: they have needs, aspire to fulfilment, require freedom to achieve it, and can exercise reason for this purpose. Within the *polis*, these universal natural features convert into rights. Because these natural features are universal, all humans are equal with respect to the associated rights. Accordingly, a natural social order is one that ensures universal equality of access to the realisation of one's needs. This principle justifies social action as follows: 'social art is the art of guaranteeing the preservation of these rights and their distribution in the most equal fashion over the largest area' (Condorcet, p. 128) [3].

Furthermore, among these rights is universal access to knowledge. Knowledge as both absolute possibility and universal right fuels Condorcet's optimism that social calculations can provide practical solutions for the satisfaction of all needs for all people. It is on this basis that he foresees, for example, the use of probability calculus to create, at the level of national governments, pension insurance systems for the continued support of elderly people, widows and orphans (Condorcet, p. 181).

While universal equality based on natural rights defines natural social order positively, natural inequalities should be treated as socially insignificant, and they certainly cannot lead to poverty, humiliation or dependence. It is under this premise that Condorcet can, for example, successfully combine secular democracy with religious tolerance (Condorcet, p.174).

A natural social order is also highly conducive to liberty, in that it allows individuals to seek their own fulfilment in an environment free from oppression. Thus, it is imperative that 'the actions of public institutions, or governments, or individuals' should not add 'new pains to those that are natural and inevitable' (Condorcet, p. 141).

In addition, a natural social order relies on principles of universal reason. The combination between the need for liberty and the need for reason leads Condorcet to ask rhetorically: 'Is there on the face of the earth a nation whose inhabitants have been debarred by nature itself from the enjoyment of freedom and the exercise of reason?' (Condorcet, p. 174). Hence, the ideal society of humankind is a global society which, according to principles of universal reason, guarantees the natural rights, including the liberty and equality, of all individuals and nations. All nations should therefore adopt constitutions based on these enlightened principles and enjoy sovereignty equally.

If 'the state's true power and wealth' should be related to 'the well-being of the individual and a respect for his rights' (Condorcet, p. 139), from this point onwards the instrumental role of society is regarded as facilitative rather than engineering. If individuals are allowed to use their abilities according to nature and to their true potential, then they can independently realise their own needs. Therefore, social systems should generally focus more on the guarantee of individual autonomy rather than on centralised distributive methods and solutions: 'men... should be able to use their faculties, dispose of their wealth and provide for their needs in complete freedom' (Condorcet, p. 131). Reason and

knowledge, to which all have access, will empower individuals for this purpose.

Importantly, throughout the *Sketch* Condorcet repeatedly displays the unshaken confidence that natural social order is accessible to all in virtue of individuals' ability to follow the precepts of nature through universal reason. In the absence of explicit laws, appeal to reason should reveal and recommend to individuals the best social conduct.

When Condorcet predicts that 'the time will come when the sun will shine only on free men who know no other master but their reason' (Condorcet, p. 179), he does not entertain the possibility that *their* reason could at any time come in contradiction with universal human reason. He does understand that the reasoning processes of individuals may be, in actual instances, imperfect and lead to imperfect results. However, he also believes that 'universal rules of reason and of Nature... are true for all languages and all peoples' (Condorcet, p. 166), and that through a process of cumulative enlightenment humankind can access these truths unequivocally.

This emphasis on the ultimate authority of the individual's exercise of reason (as well as the previously outlined emphasis on human well-being as ultimate justification of any social efforts), is not the result of an unreflective anthropocentrism. Condorcet's humanism is clearly naturalist, in that human well-being can only be achieved in accordance with nature (and not contrary to it). Thus, whatever is achieved for the *true* benefit of human beings must be for the benefit of nature (or at least not contrary to its benefit), as the *true* benefit of human beings cannot be defined or understood in any other way. He does not seem to envisage any possible tension, or conflict,

or contradiction between the two types of benefit. If, at times, he does perceive such tensions, he interprets them as an indication that the human mind has not become enlightened enough to understand the true benefits for humankind in accordance with the laws of nature. Such benefits for humankind may cover 'the true principles of the social order' (Condorcet, p. 111), the satisfaction of human needs and the attainment of individual happiness (Condorcet, p. 120), and the true rights of individuals (Condorcet, p. 182).

Let us now summarise how Condorcet's conception of the good society answers each of our three questions. Firstly, social action should be preoccupied with empowering individuals through knowledge and control, by achieving two crucial goals: (1) the universal development of science and technology; and (2) the universal political adoption of constitutions based on natural rights (such rights include equal access to knowledge and liberty for all - in this order).

Secondly, society is not expected to address human needs and fulfilment directly but to protect the power and liberty of individuals to realise these objectives locally, for themselves. This point requires further explanation: because society's protective and facilitative function is spelt out in terms of universal principles, it is to be carried out, in Condorcet's view, mainly by the national governments. He predicts that all these social efforts, made by national states through the application of universal principles of natural reason, will sooner or later converge into structured action by an international (global) government (Condorcet, p. 174). This will be achieved in the same spirit in which science and technology are to become global, as they become supported by a universal language

(Condorcet, pp. 197-198) [4]. Although the market and civil society are not completely excluded from the picture, Condorcet suggests that a unifying and co-ordinating role of this amplitude can only be successfully carried out by government.

Thirdly, for the proper conduct of both social and individual action, there is a more powerful and reliable instrument than legislation itself: it is what we should refer to as *appeal to reason*. This point also requires further analysis, which I shall briefly endeavour below.

Condorcet is aware that any legislation is bound to be imperfect, as it is incapable to foresee all possible circumstances; but, he says, the application of universal principles to local situations is a rational skill which individuals should be able to exercise autonomously: for reason to be exercised adequately by an individual, it must be independent of external authority, free to judge others and open to be judged by others (Condorcet, p. 17 and p. 42). That is why it is important for government to be secular and encourage independent thinking.

Furthermore, the authority of the law itself is to be upheld only insofar as it coincides with the authority of natural reason. This becomes apparent in Condorcet's refutation of the more traditional doctrine that the rationale of the *polis* is based on the principle of identity of interests. According to the latter, people come together to form a social order, first and foremost, for security purposes, usually expressed in means of protection against a common enemy; and, in more sophisticated cases, they are lucky enough to find additional common interests. Condorcet openly rejects this 'city as fortress' approach as inadequate for human beings as rational citizens. Universal reason should tell us plainly that natural

rights are more fundamental, less contingent and (therefore) more enduring than any identity of interests formed in times of hardship. If natural rights are denied, basic inequalities resulting from this denial will end up undermining, in the long term, the foundation of any identity of interests:

‘We shall demonstrate not only that this principle of the identity of interests, once made the basis for political rights, is a violation of the rights of those who are thereby

- debarred from the complete exercise of them, but also that this identity ceases to exist
 - once it gives rise to genuine inequality’.
- (Condorcet, p. 145)

Condorcet does not elaborate on this point but, based on the general features of his doctrine, as outlined above, I propose the following interpretation. Assuming that perfect identity of interests can be obtained in any community of individuals, beyond certain immediate security interests, comes in conflict with the reality that individuals are diverse and their interests may vary widely. No market exchanges could ever occur, for example, if identity of interests obtained in all areas of human activity. Thus, identity of interests politically superimposed on the natural inequality of individual interests is bound to create a ‘genuine inequality’ now reflected in social differences. Such social differences (of rank, status, privileges, etc.), unsupported by principles of natural equality, cannot possibly maintain, over a long period of time, an identity of social and political interests for all categories and groups of the respective community. Moreover, if one of the golden goals of humankind is, as Condorcet believes, universal and eternal peace, then this could

only be delivered by a general politics of natural rights, as previously described.

3. Adam Smith and the System of Natural Liberty

Let us now turn to the social project suggested by Adam Smith in his *Theory of Moral Sentiments* (1759) [5] and *Inquiry into the Nature and Causes of the Wealth of Nations* (1776) [6]. The explicit objective of the latter is to establish by what criteria a country may be regarded as rich or affluent (‘opulent’) and what sources or factors can contribute to the increase, stagnation or decrease of such affluence.

It appears that the mere choice of subject for such a thorough study as Smith undertakes over around 1,080 pages relies on the assumption that there must be something profoundly desirable about acquiring wealth or opulence. Indicative of a broader perspective on national material wealth is the fact that Smith often associates prosperity with civilisation, and poverty with barbarism (see, for example, Smith_b, p. 265).

Smith’s social and economic philosophy is extensively discussed in my thesis. For the purposes of this paper, I will limit my considerations to a brief analysis of his conception of an ideal economy as a system of natural liberty.

According to Smith, the most accurate measure of a nation’s economic health is the material state of those at the bottom of the social ladder, the disadvantaged (Smith_b, p. 88). Two ideas contribute to this conclusion – one normative and one empirical. Firstly, one must rely on the humanist premise that ‘no society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable’ (Smith_b, p. 88). Secondly, Smith also observes that the

only circumstances conducive to the prosperity of the economically disadvantaged are those in which the economy is in a 'progressive' state, 'advancing to further acquisition, rather than when it has acquired its full complement of riches' (Smith_b, pp. 90-91).

One insufficiently explored item in this argument put forward by Smith is his conception of the stationary state. Briefly stated, it refers to his belief that there are natural limits to the continuous advancement of any national economy, and that wealth acquisition will inevitably be followed by economic stagnation. This is evident in his outline of patterns and stages of development for labour wages (Smith_b, pp. 72-97) and stock profits (Smith_b, pp. 98-110). Having said this, however, it is not absolutely clear that Smith would have considered, like the French Physiocrats, that there are natural limits to economic growth which are given once and for all. Rather, it would be fairer to conclude that he leaves this issue open to the possibility that both natural and social conditions may have an impact on opening new horizons of economic development.

This interpretation would be consistent with the central importance Smith gives to both division of labour (as the driving force of the economy) and the natural liberty of the economic agents (as the opportunity for the latter to change the nature and processes of their labour as guided by the pursuit of their own economic advantage). Because division of labour can be changed creatively over time, and because people's creativity is stimulated by self-interest, periods of post-affluent economic stagnation can, again, lead to periods of progressive wealth acquisition. In other words, inspired by Smith's famous demonstration of the benefits of division of labour as apparent

in the production of a pin (Smith_b, p. 449), one can say that a good society is not so much a hard working society but a smart working society.

The key to increasing national wealth (understood not so much in terms of the gold possessed but in relation to the quantity and quality of the labour applied) is, therefore, an economy characterised by the natural liberty of all its agents. It is only through this sort of system that a society can make best use of the creative abilities possessed, at the level of individual economic agents, to produce new opportunities for economic advancement. In this context, the central role of any good society is to facilitate and protect a system of natural liberty in which all economic agents are allowed to act in accordance with their own interests.

For example, individuals should be allowed to change their trade or profession according to their skills and profit-making abilities (Smith_b, p. 63), no restrictions should be imposed on anyone wishing to enter a market or industry, corporation privileges and monopolies should be eliminated (Smith_b, p. 69), the prices of any commodities (including land and necessities) should not be regulated (Smith_b, p. 70), and wage fixing should be abolished (Smith_b, p. 77). Smith illustrates in detail the pernicious effects of regulation in these areas (Smith_b, p. 265 and p. 269).

Through the removal of state intervention in economic activities, the perfect system of natural liberty delivers invaluable benefits, such as fair distribution of wealth, equality and justice. Smith provides elaborate explanations of how this would happen (Smith_b, p. 111 and p. 136). He is confident that this system is more likely to produce what people need, because a transparency is established

between the free expression of needs and interests by each individual and the opportunities available for society to respond to these needs and interests.

The more revolutionary side of Smith's conception, however, lies in asserting that a system of natural liberty is most successful not only in assisting individuals in realising their own needs but also in producing public goods. Let us consider for a moment Smith's view of the manner in which each individual's pursuit of self-interest, compounded, will result in public benefit, according to his well-known principle of the 'invisible hand'. According to this principle, in (and only in) conditions of natural liberty, a natural law somehow obscured from human understanding ensures that private vices, such as greed and selfishness, are transformed to produce public goods, that is goods benefiting the whole community, beyond what was originally intended (Smith_b, pp. 477-478). It is in these terms that Smith discusses private prodigality and frugality, and their differently 'moralised' impact on a nation's economy (Smith_b, p. 360). Interestingly, a more evocative explanation of the importance of the invisible hand for the distribution of goods within a community, according to the later labelled 'trickle-down effect', is to be found not in *The Wealth of Nations* but in *The Theory of Moral Sentiments*.

Described in these terms, Smith's system of natural liberty appears convincing – but there is a catch. Such liberty, as facilitated by the well-established institutions of society, is to occur if and only if certain qualities displayed by these institutions articulate harmoniously with certain qualities to be exercised by individuals as economic agents. Accordingly, if society should not interfere with the individuals' opportunities to express, pursue and obtain

the objects of their interest, the individuals themselves are expected to be able to convert their self-love into proper care for the furthering of their own condition. This proper care is somehow measured objectively, outside individual preferences. It refers not only to the basic skills involved in looking after oneself but also to being courageous (Smith_c, p. 296), well-informed (Smith_c, p. 282), well-educated (Smith_c, p. 305), and enterprising (Smith_b, p. 301).

For example, when demonstrating that free competition establishes the prices of necessities more accurately than any regulation (Smith_b, p. 159), Smith regards this accuracy as fair opportunity for any economic agent to command and obtain goods valued according to their genuine importance for the agent's needs, without the interference of any distorting factors. But for the natural system of liberty to work, the agents themselves have to be able to convert such fair opportunity into those improvements of their own condition recommended by the proper pursuit of their interests.

In sum, for any individual and/or community to reap the benefits of natural liberty, two conditions must be obtained simultaneously: (1) the social system must properly channel any private excesses of passion towards the public benefit; while (2) individuals must properly exercise their self-love. Both conditions require further explanation.

Regarding the social responsibilities of individuals, it is important to note that Smith does not found his ideal of society on the assumption and/or requirement that individuals should be fully developed morally, or capable of exercising all the complexities of justice and benevolence in an enlightened manner. On the contrary, he suggests that the safest social arrangement

would be one which assumes that self-love should be sufficient. (Moreover, acting beyond self-love and, at the same time, at the expense of it creates problems for the social interpretation of what individual needs are to be satisfied.)

This leads us to observing the crucial responsibility placed by Smith on social systems to make best public use of this self-love. For example, when criticising the callousness and rapacity displayed by those private companies administering the affairs of the colonies (America and the East Indies) in his time, Smith emphasises his concern not so much with the selfishness of the individuals involved (for, acting selfishly, they must have behaved in accordance with their natural inclinations) as with the incapacity of the social system (led by an ineffective state) to convert these private vices into benefits for either the colonies themselves or the mother country (Smith_b, p. 158).

How does Smith's conception of the good society answer our three questions? To start with, a good society is one that values smart working (by developing new ways of using division of labour efficiently and creatively) and that facilitates an economic system of natural liberty, in which all economic agents can pursue their interests without external constraints.

In answer to our second question, it is strongly advocated that social action by government should be reduced, at least as far as economic regulation is concerned, and all crucial economic issues should rely on the self-regulating potential of the market. This argument is run on the background of a deep-seated mistrust Smith has in the power of government to compensate for shortcomings in human behaviour:

'What institution of government could tend so much to promote the happiness of

mankind as the general prevalence of wisdom and virtue? All government is but an imperfect remedy for the deficiency of these. Whatever beauty, therefore, can belong to civil government upon account of its utility, must in a far superior degree belong to these. On the contrary, what civil policy can be so ruinous and destructive as the vices of men? The fatal effects of bad government arise from nothing, but that it does not sufficiently guard against the mischiefs which human wickedness gives occasion to' (Smith_a, p. 187).

This may appear to come in contradiction with Smith's analysis of the ineffectiveness shown by the British society of his time in converting the greed of private interests in the colonies into public good. It is not contradictory, however, if we understand the responsibility for this conversion to belong to the market, and not to the government. Because government relies on deliberate and planned social action, its 'intentions', no matter how 'enlightened', are subject to moral failure from the part of the individuals relied upon to exercise that authority. Fortunately, the market does not work in the same way; as, in principle, no 'intention' has more authority than others, the 'intentions' of the players flow into a spontaneous, uncontrolled process in which only outcomes of use to others (no matter how morally questionable their source) are allowed to materialise.

It is not difficult to remark that Smith's idea of a market governed by natural liberty makes sense only under the assumption that there are no significant power differentials among the economic players. This is understandable in the context of Smith's struggle with the government's regulatory power; it does not address, however, the possibility of accumulated economic power emerging

from non-regulated market processes. In this respect, Smith's view is rather static and focused on economic agents as rather small scale (or human scale). Within his perspective of natural liberty, most economic agents would be enterprising artisans promoting on the market their own personal skills. Accordingly, government itself should also be small scale (human scale) government:

'The great object of [state] reformation... is to remove... obstructions; to reduce the authority of the nobility; to take away the privileges of cities and provinces, and to render both the greatest individuals and the greatest orders of the state... as the weakest and most insignificant.' (Smith_a, p. 234).

This conclusion must be explained in Smith's historical context. In the conditions of social and political privilege generated and maintained by political measures through state institutions, it makes sense for Smith to look at the market as a liberating alternative, capable of producing socially fairer arrangements.

However, having removed from the responsibility of the state (of 'men of system') the direct pursuit of any economic objectives, Smith invests the government with a comprehensive educational role. He is the first to admit, for example, that division of labour can have negative effects on human development (Smith_c, pp. 302-305). These effects should be reduced or eliminated through the government's effort to allow the labouring poor time and opportunities for education.

The educational role of government is extended even further. For the success of Smith's economic doctrine it is essential that the great majority of citizens practise a particular set of virtues, such as prudence (Smith_b, pp. 360-362), practical intelligence and zest for knowledge, at

least in matters directly concerning them (Smith_c, p. 282). It is only provided that these conditions are met, that it becomes preferable for the state to leave the task of furthering the interests of citizens in the hands of the citizens themselves. If cowardice, ignorance and stupidity become entrenched in the great majority of the population, it is the responsibility of government to take educational measures to combat these vices of individuals as some of the most dangerous social evils (Smith_c, pp. 308-309).

Accordingly, Chapter I of Book V of *The Wealth of Nations*, entitled 'Of the Expenses of the Sovereign or Commonwealth', contains in excess of 220 pages of instructions on government intervention to educate for the purposes of national defence (Smith_c, pp. 212-231), administration of justice (Smith_c, pp. 231-244), or simply the education of people of all ages for the purposes of good citizenship (Smith_c, pp. 282-340). Throughout this material, Smith presents very detailed recommendations as to when and how the government should intervene to regulate. For example, he deems the support of the state to be absolutely necessary in financing public education institutions to attract good teachers, to enable poor but gifted students to attend, and to encourage high-quality general education for men and women of all ages. However, he also points out that students should be free to choose the apprenticeships, subjects and teachers they want (Smith_c, pp. 285-286). Similarly, he proposes that, while the education of young people of rank and fortune can be safely left to the devices of their own family, the government should insist on the compulsory basic education of children of the labouring poor and the regulation of trade standards for anyone wanting to

practise a trade (Smith_c, pp. 305-306). This basic education involves reading, writing and arithmetic, as areas of knowledge indispensable to individuals for the satisfaction of their own needs, but does not necessarily involve the teaching of religion or the liberal arts, as these should remain areas of personal preference (Smith_c, pp. 309-312).

In relation to our third question, does Smith suggest any principle of social authority beyond the rule of law? He certainly does, especially considering the largely non-interventionist role he confers to government (with the notable exceptions outlined above). In his view, *appeal to self-interest* is by far the most effective means to elicit from individuals socially desirable behaviours. Although Smith's more than subjective interpretation of self-interest does rely on a more general idea of reason, it is not universalist in the sense of Condorcet's conception of natural reason. Hence, self-interest, properly understood and exercised, is both a driving and regulating force in a good society, and its double function is of central importance to the maintenance and progressive development of this society.

4. Marx and the Production of Human Value

A third influential perspective on the good society is that of Karl Marx, as highlighted in his earlier works: *The Economic and Philosophic Manuscripts* (1844), *The German Ideology* (1846), *Manifesto of the Communist Party* (1848) and *Grundrisse* (1858) [7].

Marx provides one of the most radical and specific philosophies of the good society developed so far. His normative theory goes to the heart of social structures: the good society is not only free from exploitation and alienation (regarded

as the greatest obstacles to human fulfilment), it also relies on a mode of production which renders these undesirable phenomena impossible.

When discussing ideas of the good society, Marx's earlier works are more appealing, because it is there that he elaborates on more subtle aspects of exploitation as self-exploitation, and alienation as self-alienation. These more subtle aspects are increasingly interesting for us today, in the aftermath of a promise of leisure time promoted and left unrealised by post-industrialist affluence (Hamilton, 2003; Hamilton & Denniss, 2005).

It is in the *Manuscripts* that Marx launches the radical idea that the labouring individual concurs to the exploitation and alienation practised by the capitalist system when emphasising *having over doing* in their own life.

Based on this idea, the history of human civilisation can be written somewhat like this. Irrespective of the type of society they are in, human beings must produce, in order to create their physical means of subsistence (Marx_b, p. 31). In this context, society is the indispensable medium in which individuals organise, primarily, their material life (Marx_a, p. 298). This organisation relies on certain categories of human *being* which, although profoundly different from one type of society to another, are nevertheless constant: labour (as productive activity), and property. In other words, human *being* (as a process or activity, as a verb in the gerund) is expressed socially as *doing* and *having* (Marx_a, pp. 275-279).

Marx's later developed theory of dialectical and historical materialism can help us now elaborate on the 'seed' he planted in the earlier works and did not return to develop. I hereby propose the

following interpretation. The constants of human being as doing and having have evolved, socially, through various modes of production in human history (from ancient to modern structures) towards an increasingly polarised and universalised separation between *those who do* (the property-less/property-free workers) and *those who have* (the work-less/work-free owners) (Marx_a, p. 271). When treated as the central value of the social order, property imposes its rules on labour in a way that results in exploitation as appropriation by one class (the exploiter) of the values created by the other (the exploited). The synthesis that humankind is waiting for is a social order in which this phenomenon ceases to occur. This requires social relations to develop in conditions of production that necessarily cannot give rise to the sort of appropriation described above. In the earlier Marx we find the suggestion that the solution may lie in conceiving human being as a harmonious, inter-supportive articulation between doing and having as inseparable aspects of humanness (Marx_a, pp. 283-284; Marx_c, pp. 103-105). Accordingly, a good society should promote *human value* (as opposed to *economic value*) based on a conception of the human being as both a 'doer' and a 'haver'.

This balance between the two aspects of human being is gradually lost in Marx's later works, as *Capital* inaugurates the trend of emphasising doing over having. The mature Marx appears to develop a conception of human nature in which not only property but the act of *having* itself is demoted as external to human fulfilment (Marx_e, p. 170). It is on the grounds of this later conception that Marx postulates the abolition of all private property and all the political measures recommended by this goal. One cannot help observing, however,

that this constitutes a significant departure from young Marx's idea of rich experiencing described as *appropriation of the world through the senses*, an act of inseparable creation (production) and ownership (Marx_a, pp 301-302).

Having said this, Marx's critique of the existing laws and institutions as unduly emphasising human beings as property owners rather than producers is constant throughout his work, and remains valid. Marx is right to observe that a good society should recognise human beings as socially relevant through the labour they produce rather than through the property they own. But, I would argue, the contrast should be made between, on the one hand, labour and property (forms of ownership) as human values and, on the other hand, commodified labour and private property (or capital) as externalised ('de-humanised') values.

Here I would like to point out a less explored aspect of Marx's earlier work. As a human being, Marx suggests, the owner of capital is also enslaved to the reductionist imperatives of private property, although not to the same extent as the worker. While the capitalist may enjoy the time and opportunity to separate his (or her) life as human beings from their role in the economic system, the worker cannot do that because his (or her) time is consumed by his (or her) productive role. But in both cases, the unifying assumption is that the capitalist economic system fails to treat members of both classes as complex human beings. In front of capitalist or bourgeois law, the capitalist is not socially valued in relation to personal qualities of skills but strictly as property owner (Marx_a, p. 247).

Perhaps the most eloquent description of the dehumanising effects of historical social orders upon all their classes,

including the ruling class, is provided by Marx in *The German Ideology*:

‘...Society has hitherto always developed within the framework of a contradiction – in antiquity the contradiction between free men and slaves, in the Middle Ages that between nobility and serfs, in modern times that between the bourgeoisie and the proletariat. This explains, on the one hand, the abnormal, “inhuman” way in which the oppressed class satisfies its needs, and, on the other hand, the narrow limits within which intercourse and with it the whole ruling class, develops. Hence this restricted character of development consists not only in the exclusion of one class from development, but also in the narrow-mindedness of the excluding class, and the “inhuman” is to be found also within the ruling class.’ (Marx_b, p. 432)

In this context, how can economic and social progress be aligned with human progress? Or, in other words, how can the good society (regarded as a facilitator of human fulfilment) occur? As it stands, the actual goal of capitalist political economy is to increase the sum total of annual savings. This goal, Marx shows, is not necessarily related to human fulfilment; if anything, it tends to go against it (Marx_a, p. 284). Hence, the aim of production (as material wealth increase) should be, instead, to maintain as many workers as possible and to create for them, through increasingly available leisure time, as many opportunities as possible for ‘self-creation’ (Marx_c, pp. 65-69).

Consequently, in answer to our first question, Marx’s earlier conception of the good society suggests that social action should primarily be directed towards the development of a mode of production which is non-exploitative and non-alienating. This is to be done through a

balanced perspective on doing and having as inseparable aspects of human being. These aspects should be promoted as socially relevant through an economy of *human value* whose chief goal is to create leisure time rather than capital.

With respect to our second question, Marx has a substantially different answer from Condorcet and Smith. The revolution of the working class and its initial claim of state power is a politically determined transitional step necessary to create the economic prerequisites for the association of free producers in the socialist stage (the ‘self-government of producers’, as stated in Marx_f, p. 58). This stage will then form the economic and political basis for the abolition of private property as class property (Marx_f, p. 61), the complete subordination of the state to civil society and, eventually, the disappearance of the state (Marx_c, p. 55).

In other words, government is only needed in the revolutionary and socialist stages. Based on a centrally planned economy, mature communism will have the resources to do away with both government and the market, and enjoy the triumph of civil society.

Within the prospect of a society without government, our third question becomes extremely important. As no social order is possible without some form of authority, how would the laws of Marx’s advanced communist society be upheld in the absence of the state, and (beyond these laws) what principles of social action should operate with legitimate authority? There is, I believe, insufficient material in Marx to answer the first part of this question; but there are some interesting elements that could answer the second part.

I have summarised these elements under the heading of *appeal to collective*

consciousness. Accordingly, Marx suggests, the good society should not be divided into classes and experience class conflict. In *The Poverty of Philosophy* of 1847 (pp. 173-174), he provides a detailed explanation of how the revolution of the working class will abolish all classes and all political power in society, thus dissolving its own power and identity as a class. The significance of this phenomenon is explained in *The Manifesto of the Communist Party*:

‘In place of the old bourgeois society, with its classes and class antagonisms, we shall have an association, in which the free development of each is the condition for the free development of all’ (Marx_c, p. 63).

Collective consciousness is a necessary characteristic of the ‘new individual’. If a non-exploitative and non-alienating mode of production, facilitating human fulfilment, should be promoted, then some of the key principles of bourgeois society should be re-defined. Hence, he or she should understand that relating to land as a human being, as well as equality in human development, is achieved through collective property and not private property (Marx_a, p. 268). He or she should also understand that the convergence between labour and free activity is better achieved through general (rather than local) utility, that is, through production ‘for the sake of universal man’ or ‘for the sake of the community’ (Marx_d, p. 146). All these conceptual changes require all individuals in the new society to develop an advanced collective consciousness. Only on the basis of the proper development of collective consciousness in individuals can the new society do away with the state. It is only because individuals require time to develop this collective consciousness adequately that the state cannot be abolished at the time of

the revolution of the working class but some transitional stages (such as the dictatorship of the proletariat, and socialism) are required.

In other words, collective consciousness requires that all individuals become social individuals, in that they internalise a common, rather specific, set of principles and values, which will form the basis of all relationships in the new society (now a homogeneous civil society). Any forms of authority emerging from this social structure would have to be dealt with by reference to these principles.

5. Three Good Societies: Three Different Lessons for Integrated Governance

Let us now summarise how the three conceptions of the good society presented above answer our three questions relevant to integrated governance. In Condorcet’s natural social order, the central locum of social authority is the government, while social authority beyond legislation is performed by appeal to reason. In Smith’s system of natural liberty, the driver of social authority is the market (with some important qualifiers from government), while social authority beyond legislation is performed by appeal to self-interest. Finally, in Marx’s advanced communist order, whatever remains of social authority is exercised solely at the level of civil society, through appeal to collective consciousness.

How can each set of answers affect a conception of integrated governance? The hypothetical formula proposed in Coghill *et al* (2005) appears to deal successfully with any variance in prominence among the three sectors. Let us consider this formula:

‘ $IGI = GSG^a + MSG^b + CSG^c + IRG^d$,

where

IGI = integrated governance index

GSG = government sector governance indicator

MSG = market sector governance indicator

CSG = civil society sector governance indicator

IRG = inter-relationships governance indicator

and a, b, c, d are variable weightings that should be given to each governance indicator, to reflect the impact of socio-economic and political factors on the relative importance of governance in each indicated area' (Coghill *et al*, 2005). Assuming the above, any variance in social authority and responsibility of each sector across the three social orders considered can be represented as a variance in the values of a, b and c . With the proviso that not much seems to be left of the meaning of IRG in Marx's model, it can also be said that variance in the relevance of this indicator can be represented as a variance of d .

Special attention should be paid, however, to the modalities in which differences in the underlying principles of the good society can lead to differences in defining substantive criteria for governance (such as transparency, accountability, responsiveness and fairness). On the issue of fairness alone, for example, there is a vast literature displaying profoundly different understandings of what constitutes (or should count as) fairness, as well as of the mere relevance of fairness for the governance of society, from social naturalism to market liberalism to post-Marxism to neo-contractualism. While it would be impossible to take the matter any further in this paper, I suggest that more research should be done in this direction.

If the general formula cannot account for substantive differences in meaning (of the type indicated above), it is doubtful that it

could be used to measure governance across social structures where such differences occur. This conclusion raises the question of whether fundamental differences in conceptions of the good society (such as those pertaining to social structure) point to a problem of incommensurability of governance performance across different social structures, or whether a universal operational model could indeed be obtained.

6. Conclusion

Why should we reflect on these models? In a very clear sense, they deal with *ideal* societies, they are out of this world. Furthermore, each of these three conceptions represents a paradigm of social progress which has become dominant in modern times, generated a social project that has been tried in practice and that has, largely, failed. It can be said that some have failed 'more than' others – but, considering the serious practical problems faced by each of these models, they can all be reasonably labelled as failures.

The reason these conceptions are still interesting to us today is a combination of two factors. Firstly, *these* three normative experiments stand out to be selected for our discussion because they have been dominant in the last three centuries. Humanity has spent the most time trying to put *these* projects into practice more than any others. Consequently, both support and criticisms of these projects are abundant, and offer us rich material for use in reflecting on the interactions between models and practice.

Secondly, they are radical normative experiments (some more radical than others). When evaluating good governance, we are essentially making the

same kind of intellectual move: we compare what occurs in social practice with some idea *we* entertain about what is desirable. What *is* is assessed by reference to what *should be*. Whenever we ask ourselves about what *should be*, we step out of this world. But radical normative experiments are more fertile than others also because they push our normative creativity to the limits. There are many reasons that can be attached to the failure of these three projects (for example, the unfounded reliance on ideas such as absolute universal knowledge, the perfectly competitive market, the perfect social individual). However, what is important for the development of a model of integrated governance is the realisation that such a model is bound to be very sensitive to variations in the conceptions of the good society informing it – at least with respect to the three questions that have been discussed in this paper (namely, the goals of social action, the distribution of social authority and responsibility among the three sectors of society, and principles of authority beyond legislation). Radical normative experiments can indicate to us the range or extent to which models of integrated governance can vary with conceptions of the good society.

In modelling integrated governance, we are in a difficult situation. Can one form a conception of good integrated governance without adopting a conception of the good society? On the other hand, it is reasonable to assume that conceptions of the good society can vary greatly and significantly in any jurisdiction. How can we then safely assume that we would be able to create a unified normative conception of integrated governance representative for that jurisdiction? In this context, I believe that the most serious challenge governance researchers are facing today is to determine

whether one can develop models of integrated governance that would satisfy plural, even incompatible, conceptions of the good society – or, even further, conceptions of the good society that are unknown or not yet formed. Only after answering ‘yes’ to this question can we then ask ourselves what these models would look like, and what conditions they would require to become operational.

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Notes

1. Some of the most recent writings on the subject include: John J. Ranieri, *Eric Voegelin and the Good Society*, Columbia: University of Missouri Press, 1995; Karol E. Soltan and Stephen L. Elkin (eds), *The Constitution of Good Societies*, University Park: Pennsylvania State University Press, 1996; John Kenneth Galbraith, *The Good Society: the Humane Agenda*, Boston: Houghton Mifflin Co, 1996; Julia Parker, *Citizenship, Work, and Welfare: Searching for the Good Society*, Houndmills, Basingstoke, Hampshire: Macmillan Press, 1998; Joseph S. Berliner, *The Economics of the Good Society: the Variety of Economic Arrangements*, Malden, MA: Blackwell Publishers, 1999; Bent Greve (ed), *What Constitutes a Good Society?*, Basingstoke: Macmillan, 2000; and Amitai Etzioni, *Next: The Road to the Good Society*, New York: Basic Books, 2001. Walter Lippmann's classic, *Inquiries into the Principles of the Good Society* has just been re-edited (New Brunswick: Transaction Publishers, with an introduction by Gary Dean Best). The Australian intellectual landscape has also been marked recently by discussions of the ideal society, even in empirical and pragmatic enquiries such as Clive Hamilton's *Growth Fetish* 2003 and *Affluenza!* 2005.
2. In Condorcet's view, at the forefront of any progress of human civilisation are the sciences – that is, all the disciplines and activities set up for the pursuit of truth. On the other hand, people do not just contemplate the universe but have needs inherent in their nature. It is in response to these needs (under the imperative of utility) that humans have developed the arts – the 'mechanical arts' (Condorcet, *Sketch*, p. 59) as the archetype of today's notion of technology, as well as the fine arts (Condorcet, *Sketch*, p. 53). The role of mediator between truth and utility is performed by philosophy, which is thus set apart from both the sciences and the arts. It results from here that, in order to achieve appropriateness in anything of utility to human beings, one has to first establish the truth of nature, and then derive from it (through philosophical reflection) its utility and relevance for human beings. Thus, utility is nothing but truth applied, or further specified, in

- contexts of human benefit.
3. All page numbers refer to the 1955 edition listed in the **References**.
 4. Condorcet's view of a universal language, though, refers to a perfectly transparent and precise symbolic language as developed, for example, in mathematics or the natural sciences (and not to a particular natural language).
 5. All page numbers refer to the 1976 edition listed in the **References**.
 6. All page numbers refer to the 1976 edition listed in the **References** (volumes I and II).
 7. All page numbers refer to the editions listed in the **References**.

FEATURES OF THE SOCIO-POLITICAL MARKETING

Cristian-Romeo POŢINCU¹

Abstract: *It can be said that the political marketing has certain features which must be taken into account for efficiently applying the marketing instruments in the political and electoral field.*

Key words: *political marketing, commercial marketing, electoral campaign.*

The Romanian Explanatory Dictionary defines the marketing term as an ensemble of activities, methods and techniques having as an objective studying the consumers' demand and satisfying this demand with products and services.

In the Marketing Dictionary, marketing is defined as a modern managerial concept, materialized in planning, organizing, executing and controlling all internal and external activities of the enterprise, in order to direct them towards the commodity market of the unit, so that its objectives would be attained by superior satisfaction and maximum profit for it of the needs, requirements and desires of those to whom the products and services are offered. The essential content of the concept is thus not selling but satisfying the consumer's needs.

Ph. Kotler defines marketing as a social and managerial process, performed by an organization (individual or group) with the purpose of changing the needs and desires of other groups or individuals, by creating and exchanging products and value.

In 2004, the American Marketing Association defined marketing as an organizational function and series of processes intended to create, communicate and deliver value to the consumers and manage the relation with them to the advantage of the commercial company, to the advantage of its shareholders. In 2007, the American Marketing Association established a new definition of marketing. Thus, marketing is defined as an activity, a set of instructions, as well as the creation, communication, delivery and exchange process which constitutes value for consumers, clients, partners and community in its whole. Marketing is at present considered an "activity" instead of a "function". The new definition established by AMA (American Marketing Association) turns marketing into a long-term value supplier.

The marketing concept has been substantiated in 1957 by J. B. Mc. Kitterick – the president of the General Electric company – who, during a meeting of the American Marketing Association, stated: the marketing concept is the

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philosophy of the orientation towards the consumer which implies integrated and coordinated actions, as well as achieving a certain purpose. [6]

Depending upon the nature of the activity performed by enterprises, organizations, institutions or persons, the purpose can be: profit, improving the image, developing tourism, electing a candidate, remedy for a disease, protecting the environment, etc.

In his work "Marketing Management: a Strategic Planning Approach", V. R. Buell uses the marketing concept in legal and managerial terms also, not only economic. A classification of marketing has been made, of course based on scientific grounds. Thus, depending upon the object of activity, marketing falls into the following categories:

1. Marketing in the economic field, which is used in all branches producing goods and services for satisfying the consumer but at the same time also brings benefits to the producer;

2. Marketing in the non-lucrative field, which is performed in branches not producing goods and products but elaborates ideas, with the purpose of determining certain social behaviors, starting from a legitimate social cause. It refers both to socio-political marketing.

Under the conditions of the extension of marketing in the non-economic fields, after 1970 the social marketing concept is also developed. It reflects the appearance of a new exigency in the marketing view and action: taking into account the general interests of the society.

In 1976, Ph. Kotler defined the social marketing as the elaboration, implementation and control of the programs, focusing on the increase of

adhesion to an idea, cause or social behavior, within one or more groups aimed at.

A more recent approach of the social marketing concept carried out by Ph. Kotler shows that the organization must establish the needs, desires and interests of the markets aimed at, and supply the desired satisfactions in a more effective and efficient way than the competitors but in way which would protect or improve the material and spiritual existence of the consumer and society.

The "social marketing" term (the more comprehensive term "socio-political marketing" is preferred) designates a large and heterogeneous range but the concrete applications in certain compartments of this range have received adequate names, by associating the word "marketing" with the name of the approached field or issues.

The establishment of valid marketing concepts for the new sectors of the society taken into account requires however a new classification of the marketing theory.

In its traditional form, marketing implies the presence of four elements – an interested factor (the firm), an environment aimed at (the market), the offered product (the service), and the payment in money (if we refer to selling-buying acts) for its procurement. These elements are found in the approximately same position, even if in an altered form, in case the object is not necessarily a material product, and the "reward" of the performed actions is not assessed in money. The object "remains" mutual, exactly what the essence of marketing belongs to, i.e. a certain attitude: the desire of the interested factor; which can be the society in its whole, its members, a social organization or even an economic enterprise, to know the

requirements of a certain type of the social environment, in order to better satisfy them. If a commercial company with a marketing outlook, using a series of techniques, manages to find out the client's requirements, to offer him an adequate product, and by selling the product to obtain a financial profit, a social organization could do the same, pursuing the spreading of an idea, adhesion to a social cause, changing or creating a certain behavior, a certain opinion.

Scientifically, the marketing techniques have been used in the political field for the first time during the presidential electoral campaign in 1952, in the USA, by the staff of the democrat candidate, general Eisenhower. Practically, on this occasion, electoral television videos have been devised and used, a situation which has determined a visible advantage as compared to his contestants.

The American Marketing Association acknowledged the existence of the political marketing once the definition of marketing has been revised in 1985. This new definition considered marketing as the planning and execution process of conceiving, establishing the price, promoting and distributing the ideas, goods and services, in order to determine exchanges satisfying the individual and organizational objectives. The novelty element of this definition consisted in

adding the word "idea" to goods and services, being looked upon as a landmark in the integration of the social and political issues into the marketing thinking.

In the Marketing Dictionary, the political marketing is defined by G. Brătucu as a concept designating one of the extensions of marketing in the socio-political field, denominating, in particular, the elaboration, implementation and control of the programs, pursuing the increase of adhesion to a party, candidate or political program within one or several electoral groups aimed at. This is the total amount of modern means used by the ensemble of political parties in trying to influence the opinions and, in particular, the electors. As for the market study, the investigation methods used in the political field are, in general, the same as those used in the commercial field but the nature of the information use is different: they generally concern the political attitudes of the electors, image of the parties and politicians, voting intentions and special electoral process. As the most famous companies, the election candidates try to shape the thoughts, perceptions, feelings and experiences of the electors, in order to obtain their vote.

As for the features of the political marketing related to the features of the commercial marketing, they can be structured as follows:

Commercial Marketing	Political Marketing
Product	Party, Candidate, Political program and ideology
Commodity market	Citizens having the right to vote
Consumer	Elector
Exchange mechanism	Vote

In most of the cases, the exchanges taking place within the non-lucrative marketing field are not monetary. As compared to commercial marketing, these can be highlighted as follows:

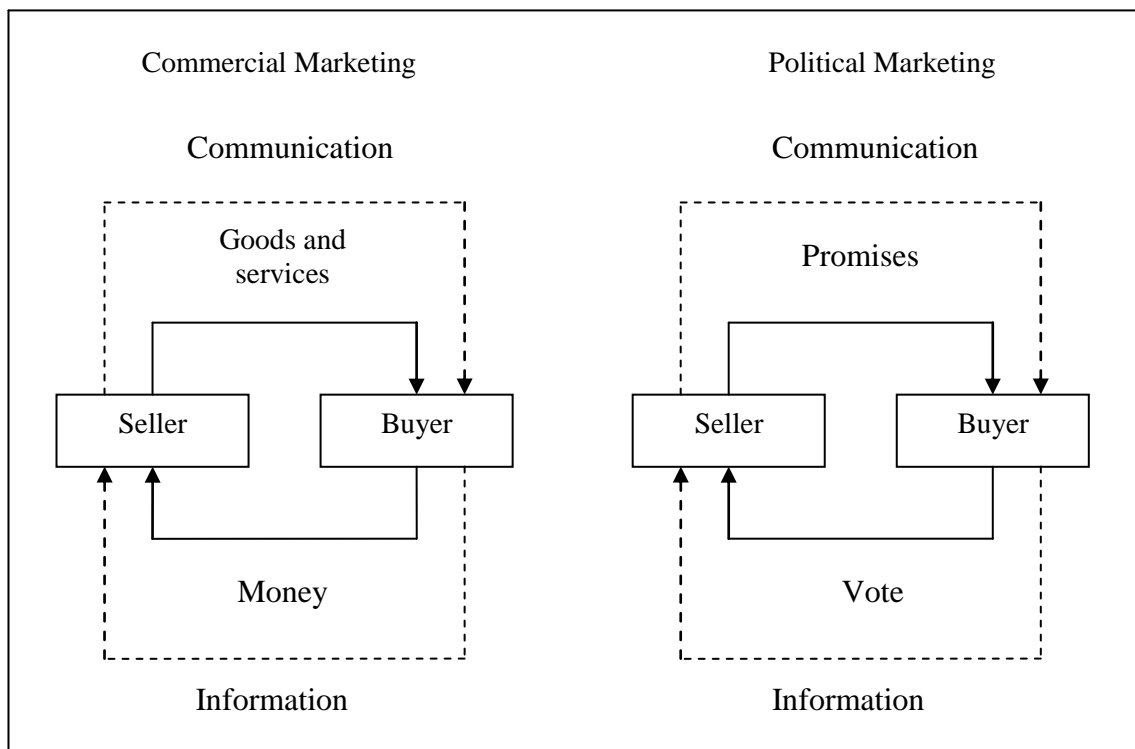


Fig. 1. Structure of the exchanges in the commercial marketing and political marketing

Source: Aguirre Garcia M. S.: *Marketing en sectores específicos*. Ediciones Piramide, Madrid. 2000, p. 237

Similar to the commercial marketing, in the political marketing, the consumers (electors, persons having the right to vote) must choose between the various political products, proposed by means of various channels of communication. These channels of communication are used in order to present and promote the product of the potential market.

Another similitude with the commercial marketing is the fact that the first political marketing activity consists in the market study with the purpose of knowing the desires, reasons, opinions, attitudes and voting intentions of the electorate.

Starting from the analysis of the market and competition, the strategies to be followed in order to attain the political and electoral objectives can later be traced. The political marketing activity mainly focuses on conceiving and developing the electoral campaign. This does not only restrict to the use of publicity and propaganda, using the entire ensemble of social communication instruments. The electoral campaign implies presenting and promoting, for a strictly determined period of time, a political program or candidate, as well as tracing the specific tactics of anticipation and response to the strategies of the contestants.

As a conclusion, it can be stated that the political marketing has certain features which must be taken into account for efficiently applying the marketing instruments in the political and electoral field.

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IS CAPITALISM ETHICAL?

Titus SUCIU¹

Abstract: *The author of this paper have set off from the question: is the present capitalism ethical? We started with the delimitation and correlation of the concepts of ethics, morals, morality. Further on, we analysed the evolution of capitalism in connection with morals. Based on this research, we came to the conclusion that the capitalist system has undergone through three stages: moral capitalism, amoral capitalism, and immoral capitalism. We concluded by implying that the corporate capitalist society is immoral, that it cannot regulate itself and that the government's assistance is needed to inoculate the ethics.*

Key words: *ethics, morals, morality, moral capitalism, amoral capitalism, immoral capitalism.*

We have been preoccupied by the following question: in its current stage of evolution, is capitalism moral or immoral? In other words, is ethics a constitutive part of capitalism, does it come from outside, or is capitalism unethical?

The complexity of this matter is determined by the double nature of ethics. On the one hand, there is the theoretical-philosophical dimension, and on the other, the practical-behaviourist dimension, the link with economics in general and capitalism especially.

In order to analyze the relationship between capitalism and ethics, it is necessary to delimitate the concepts of ethics, morals, non-ethical, amoral, unethical, and immoral.

1. Conceptual Delimitations

The concepts of ethics and morals have a parallel origin – from the Greek *ethos* (virtue, habit, custom, character). From this term, Aristotle derived the word ethical for certain human qualities of

spiritual nature, called by him ethical virtues, such as: moderation, courage, generosity.

Starting from the Latin *moris* (virtues), Cicero created the notion of *moralis* (morals). In the IVth century AD, the Latin term *moralis* turned into morals, a synonym for the Greek *ethos* (ethics). So, the two concepts, ethics and morals, have a similar origin and identity.

Morals is a set of forms of the social conscience which regulate the cohabitation of people in society. In many of its descriptions, at the core of the morals are the fundamental values, the good and the evil, destined to direct people's behaviour. [1]

Other authors elaborated a more comprehensive characterization of morals, including there the set of principles, norms, values, ideals and convictions which constitute the spiritual level of the human conscience, and also the set of feelings, skills, attitudes and mentalities that constitute the psychological level of the conscience.

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Briefly, morals is the appliance of human principles and skills to the facts of life. The fundamental values of morals are: good, evil, duty, responsibility, dignity, equity, moderation, the equity of chances. Morals consider that man is a valorising being who produces preserves and order his life and activities according to a system of moral categories which coincide with the moral values mentioned earlier. All these values and categories of morals refer to man's purpose in the world, the meaning of the existence of the individual and of different human societies.

The moral principles are prescriptions which recommend a general model of behaviour, an ideal to be followed. The moral ideal is a potential and desired project, while the norm is a beacon of the individual behaviour in the relation with the others.

Apart from morals, but in tight connection with it, ethics is seen as 'the set of values and norms that define in a certain society the man of honour and the rules of correct, dignified and successful behaviour, the breach of which is condemnable and despicable. Ethics promote certain values (honesty justice, correctness, equity, impartiality, kindness, magnanimity) and try to hold to certain norms'.

What is necessary to be underlined in this introduction about ethics, apart from the fact that it is a complex of values, norms and rules that are also included in the characterization of morals is the fact that between morals and ethics exists a core structure, a distinctive note, in other words, the fact that the rules here, the same as with the religious commands, are positive imperatives, urging to 'be honest!', or 'be just!', while others are stated as negative imperatives, prohibitive, such as 'don't do what you don't like to suffer!'.

The notion of morality is in interdependent relation with morals. By the notion of *morality* is implied 'the condition of the man who aspires to live under the guidance of as higher ideals and principles as possible'. If we wonder what kind of ideals and principles are those, we can answer, without fear, that they are moral ideals and principles, and therefore morals and morality cannot be clearly told apart.

Although ethics coincides with morals as they have similar etymological evolution, delimitation between them is necessary, even though there is no ethics outside morals. Ethics is a theoretical approach of morals, a moral philosophy or a science of morals, which tries to illuminate with theoretical constructs the moral problems.

While morals is considered a set of convivial norms and principles of good quality, with universal or particular character, referring to the daily behaviour both at spiritual as well as at practical and behavioural level of human individuals or societies, ethics, with its theoretical traits, of moral philosophy, has, as morals does, an object of study, meaning that it is the conceptual system which sees morals in action, day to day morals. Ethics elaborates a theoretical-rational vision on the morals as a whole.

Ethics, even with its subordinated branch of economic or business ethics, as some economic specialists call it, represent 'the totality of norms and regulations which refer to the conduct of the business officers in their economic activities'. Economic ethics, as a particular science of the general ethics 'makes a synthesis of the system of values, principles and norms establishes in time between the economic entities'.

In contemporary literature, the concepts of ethics, morals and morality are synonyms in most of the languages. As a moral theory or philosophy, ethics studies the code of norms and rules that guide the life and activity of man. Apart from ethics

in general, we also speak about branches of ethics such as the economic ethics, business ethics, management ethics, medical ethics, law ethics, and professional deontology.

2. Is Capitalism Moral?

In order to explain the connection between moral and amoral (ethical and non-ethical), moral and immoral (ethical and unethical) and the connection between these terms and the evolution of the capitalist society, we refer to a study, significantly entitled *How capitalism lost its soul: from the protestant ethics to the 'barons' of theft*. Marie-Laure Djelic, the author of the study, distinguishes four stages in the evolution of the relation between ethics and capitalism.

In the first stage, the missionaries, in the liberal tradition, conceive capitalism as an ethical system, characterized by social and political freedom which leads to progress. In the second stage, the relationship between capitalism and ethics is seen in a Nietzschean perspective, where capitalism is outside ethics, it is non-ethical. Capitalism manifests an amoral economic order. The third stage, called 'critical', sees capitalism as 'deeply immoral'. The fourth stage is a 'de-standardization' one, where the capitalist system is neither ethical, nor self-regulating by nature. The author concludes that, under historic circumstances, the capitalism begun as a morally founded system, then 'coming to lose its soul', which is its ethical essence.

These four stages of the evolution of the relation between capitalism and ethics are questionable and arbitrary, because between the third stage, which characterizes the capitalism as "deeply immoral" and the fourth stage, which presents capitalism as cancelling its standards, and thus unethical, there is no essential difference. But, beyond the analyse of the evolution of the relation

between capitalism and ethics in the fourth stage, what needs to be remembered is the evolution of the capitalism from the morals, in the first stage, through an amoral stage, to the present stage of the 'theft barons', as a 'deeply immoral' and "without rules" type of capitalism.

In daily conversations, there is no difference made between the terms 'amoral' and 'immoral', between 'non-ethical' and 'unethical', understanding the first as opposed to morals and morality, and the second as opposed to ethics. At a closer look, we see that the terms 'amoral' and 'immoral' are not synonyms, as well as 'non-ethical' and 'unethical'.

The word 'amoral' means 'indifferent to morals', it does not refer to it, as it is placed outside morals. The same, 'non-ethics' is outside the content of ethics. They are equidistant.

The word 'immoral' is opposed to morals, and also to the principles and norms of morals. Immorality is antonym to morality.

In the same antagonist relation are non-ethics and ethics, with reference to the rules and the code of ethics.

Further on, we will analyse the significance of the three terms: moral, amoral and immoral, in close connection with the evolution of the connection between the capitalism and morals.

This connection undergoes three stages: the moral capitalism, the amoral capitalism and the immoral capitalism. There are substantial differences in the evolution of capitalism during the three stages, which refer to the essence of the capitalism and to the development and transformation of the phenomena.

2.1. The Moral Capitalism

The various stimuli of which the ethical conduct is responsible are divided into two important groups: rewards and punishments. They are the main determinants of the human ethical

behaviour at individual and communitarian level. Rewards are more important for the moral life than punishments, because they stimulate the improvement of the personal and the collective life, like dignity, generosity, and so forth, while punishments generate conservative strategies, such as the deviation or breach of law, of moral rules and norms, meanness, mischief, etc.

Without doubt, the reward was not invented by capitalism, but profit was, and it is the powerful stimulant of the capitalism even from its apparition.

In his book, *The Protestant Ethic and the Spirit of Capitalism*, Max Weber shows that J. Calvin and M. Luther had reconsidered the meaning of profit as seen by capitalism. The protestant ethic was a constitutive part of the rational capitalism.

According to Max Weber, the birth of rational capitalism associated with the free market of work, with the development of occidental cities and organization of the national states were built on the principles of ethics. By his organizational spirit, J. Calvin saved a big occidental city (Geneva), of the menace of general bankruptcy and a high rate of unemployment, setting the stones of the city's industry. He elaborated a new Christian attitude towards money. Through J. Calvin and M. Luther, the rising bourgeoisie builds up its own morals, different from the obsolete morals of feudalism. The norms of the protestant morals are based on the fact that the businessman, the entrepreneur, the trader, the banker are no longer an immoral Christian, as any professional activity shares the divine grace.

The businessman was set free from the curse that was upon him even from the raise of Christianity. The Catholic theologians considered the loans with interest immoral, based on the gesture of Jesus Christ who banned the merchants

from the temple. According to J. Calvin, by their professional activity, Christians fulfil God's given mission. By his work, the Christian praises God's glory, because there is no work, as dirty as it would, that does not shine in the eyes of God and not be priceless if it helps us serve our vocation.

Max Weber considers that the economic interests and the moral norms determine together the human action. According to him, morals and economic development are in tight connection. Ethics and professional activity are the fruit of a vocation, of a call. Profession is the highest form of Christian activity. The restless professional work is 'an excellent mean to acquire self-confidence'; it 'confers the certainty of the state of grace. God does not require work in itself, but rational professional work'.

As a consequence, the economic agents, in this stage of the building of capitalism as an economic and social system found their actions on their life and on law, on ethical norms and principles.

They aspire to obtain profit and benefits in a well-structured moral environment. The managers adopted an ethical code in dealing with their employees, shareholders, suppliers, buyers, and they also show social responsibility in the production process. Abiding to laws, to moral norms and regulations doesn't mean that, in this stage, there are no deviations or violation of these rules. There are, but the capitalist system has the capacity to correct them.

2.2. The Amoral Capitalism

The second stage of its evolution, simultaneously with the beginning of the capitalist industrialization, larger and larger categories of people are attracted in the capitalist process, and the economic process brings along the organization in democratic structures. In this stage, ethics does not come from the capitalist process. Between the two fields: of ethics and of

capitalist economy, there is no cause-effect relation. They are exterior towards each other; the capitalist economy is, in this stage, amoral, non-ethical.

The market economy generates the private well-being. The common well-being, which results from the resource distribution, has an ethical character. It is expressed by the search for the social equity, of human solidarity; it is preoccupied by the helping of those with small income and challenged, in general, by the social assistance.

The public and administrative power exercise the influence it has by correcting the negative effects generated by the market economy on the population, by measures such as redistribution of income by means of fiscality, the progressive character of taxes according to the extent of the income, health assurance policies, education assurance, unemployment dotes.

But all these actions of the power institutions which are circumscribed to the common well-being are external to the capitalist economy, they are not the results of the capitalist economy dynamics and mechanism. The state, with his institutions, corrects in a certain degree the negative economic effects, fighting against monopoly and corporations, trying to assist in consumer's protection, as well as in salary and union rights.

The capitalist economy has its own functioning strings. It is accomplished inside the market and determined by the economic agents' action, in order to ensure the private well-being. The public power pursues the common well-being by mechanisms of political, administrative, legislative and judicial authority. The economic agents, relying on the principles of economic efficiency and rationality, aim at getting the best profit possible, at accumulating wealth on both company and individual level.

Ethics results from the confrontation between the economic performances of the organization (measured by costs and profits) and the social performance, determined in terms of obligations towards the persons and social categories from inside and outside of the organization.

By the way they pursue the accomplishment of the particular aims of the two powers, public and private, general interest outcomes intersect: common and private well-being. The common well-being is generally determined by the government, and the private well-being is generated, first of all, by the economic agents.

The segregation of wealth gathering and wealth redistribution is a characteristic of the XIXth and XXth centuries' capitalism, which had proved to be beyond good and evil.

The amoral capitalism, as a system, acts in two different ways: unconscious (involuntary) and conscious (deliberately). The businessmen, entrepreneurs, act involuntarily, they are not conscious of the fact that, apart from benefits, their actions also produce negative adverse results. They do not calculate the ethical dimension of their actions.

Many economic agents (individuals or corporations) assume, on the conscious level, that the moral aspects only refer to the private life. As an example, let's consider the case of alcohols and tobacco; even if the distribution of these commercial items is considered legal after the distributors inscribed on the labels the necessary specifications, still, the economic agents do not think about the profound moral problems that arise following the consumption, the harmful and noxious problems of the alcoholism, the dramatic effects of driving under the influence or the health issues, as cirrhosis or pulmonary cancer.

After all these observations, we conclude that ethics is external to capitalism that reached its industrial stage, and thus, capitalism is amoral and non-ethical.

2.3. Immoral Capitalism

The recent studies about the relation between ethics and capitalism stress more and more the fact that the corporate capitalism system is going towards immorality and un-ethics.

In a society where ethics is integrated, this generates trust between business partners, protects the rights and interests of those involved in the production activity and retail. In the opposite situation, when inside the capitalist corporatist economy the immoral character is dominant, an extreme crisis arises, which can endanger the social-economic life itself of the different corporations, institutions and social categories.

According to the market fundamentalism as an extreme manifestation of liberalism, the corporate capitalism opposes to ethics, generally, because they have their own structures and causal mechanisms. The economic agents (individuals or companies) have complete freedom to act. Their main purpose is to maximize profit. Talking about the opposition between the capitalist system and ethics, G. Soros entitled a chapter of one of his books 'Capitalism versus Democracy', showing that the international financial markets and transnational companies had violated the sovereignty of the host states. Capitalism and democracy guide after opposite principles: companies' capitalism chases income, and the public authority is after democracy and well-being. The evaluation criteria and the values are also in opposition. For the corporate capitalism the measurement unit are money and the private interests, while the state and the democracy follow the public interests. These divergences of interests trigger after them tensions between capitalism and

democracy, between the state and the national or transnational corporations. The capacity of the state to ensure the well-being of its citizens is undermined by the cunningness of the corporations which skip the payment of their taxes, but still obtaining the benefits of the advantageous use of the working force, and in this way, the burden of the taxes moved on the shoulders of the contributors.

The menace of the failure of the corporate capitalism does not come from socialism, but from the market fundamentalism. The socialism had removed the mechanism of the market and imposed the control of the party-state over the economic activities. The market fundamentalism strives to impose the market supremacy over all the social and ethical values. Both of these extremes are dangerous.

The chain of corporatist scandals form the beginning of this century from USA and Europe, together with the deepening of the economic and financial crisis between 2008 and 2009, question the ability of the capitalist society to put a hold on greed, dishonesty, corruption, abuse and aggressive rivalry between the participants to the economic and social life.

Following after a period of economic growth, the American economy now encounters serious economic and financial problems. The shareholders have lost around 7000 billion \$ in the biggest stock exchange crisis in the last 70 years. A notorious example of illicit revenue was the CEO of the New York Stock Exchange, Richard Grosso, who obtain from the members of the Board of Directors, the members of which he named, a hidden emolument of 48 million \$, apart the 140 declared millions. Of illicit income also benefited Kennet Kay, the general manager of Enron, who cashed 120 million \$ a few day before the company went bankrupt. Also Gary Winik, the

Global Crossing general manager ensured for himself over 130 million \$ from selling shares just before the bankruptcy of his company.

The economic and financial crisis deepens. The banks crush one after the other. The multinational conglomerates, which until yesterday had at hand budgets of several billions a day are now in big trouble (see AIG). The real estate business, which granted fabulous incomes and stable jobs, are now in dramatic situations, many being bankrupt. Car manufacturing has visibly decreased, and sales are half as they were before.

The shock wave of the crisis went from USA in the two American continents, shaking Europe and Asia. Its cold breeze is preponderantly felt in the staff reductions for limited or unlimited periods of time. Unemployment, rising in all countries, reached alarming proportions. This is the most dramatic effect of the crisis – the lack of means for existence of a bigger and bigger part of the population of the planet.

All these facts lead to the conclusion that the strategy of the corporate capitalism is to use extensively all the opportunities in order to obtain as big and as quick profits as possible, and the means include dishonest practices, as dilapidation, bribe, fraud, influence, corruption.

3. Conclusions and Solutions

If capitalism was moral at its origins, placing ethics as a factor which generated rational and dynamic development, it crosses into a second stage where it cuts itself off from ethics, becoming nowadays, in its third stage a corporate and unethical and immoral capitalism. The fraudulent events we spoke about prove that they are at the core of the system, and they also prove the immoral character of the corporate capitalism. Those who are placed on a high hierarchy on the capitalist ladder became rich by dishonest means.

Directors of stock exchange applied outrageous methods, such as ‘creative contributions’, manipulation of information about the quota of the companies’ shares on the stock market, by falsifying the financial statements by the complicity of corrupted auditors and massive sells of shares just before the crush of the companies.

Many companies underestimated their debts and over evaluated their assets, thus misleading their shareholders. Some of the renowned accounting companies showed an atrocious greed in their consultancy and audit actions. The internal audit of the companies was degraded by corruption.

The most of the abuse in a company is determined by a fraudulent behaviour of their managers, who, by stock speculations and false financial reports earned fraudulent and undeserved gains.

We notice that the situation of some transnational companies depends on the craftsmanship of a general manager who, in many situations, trying to make easy and unlimited money, put personal interests above those of the shareholders they represent, sometimes being rewarded for the bankruptcy of the corporation. We mention that the lag between the richest fifth part of the population and the poorer fifth of the population has grown in three decades of globalization from 30 to 1 in 1960 to 70 to 1 in 1996. Among the richest fifth are also placed the managers and shareholders of the transnational companies.

In the circumstances of the current economic crisis, what would the possible solutions be? Could be the return to socialism a solution? The socialism as a world system collapsed, defeated not as much by capitalism as by the inefficiency of a centralised economy and a totalitarian political system, but because it was incapable to provide for a living standard close to that provided by the capitalist

system; as in these circumstances we cannot talk about the return to the socialism for the Eastern European countries, this is the more so for the developed countries.

Despite of the immorality of the capitalist system, we must accept it because its results, be they as in the present, are still better than those of the socialism. What the legislative power must do, in order to avoid the scandals such those in which corporations are currently involved, is to make of the immoral behaviour in ineffective strategy in the eyes of the managers. This fact involves the regulation of the judicial system so that it has the power to detect, prevent and drastically amend the abuse.

Governments are forced to intervene by measures such as nationalizing banks or companies where the managers made use of fraud, thus protecting them under some conditions. The corrupt leadership must be taken down and made responsible in front of the law.

We conclude that under the present circumstances of the economic and financial crisis which continues to evolve, the immoral capitalism cannot self-regulate and that is why the intervention of the governments is required, depending on the concrete circumstances of each national state.

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THE EVOLUTION OF THE CONCEPT OF BUREAUCRACY

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Abstract: *The first half of the paper defines the concept of bureaucracy, its evolution over the time and the current academic debates. A short review of the most debatable theories written by Lowi, Niskanen, Dunleavy and Choudhury is included. The second half focuses on the three concepts of power put forward by Russel and the non-paid goals bureaucratic offices pursue on a daily basis. The paper also analyses the issue of monitoring the output of bureaucratic offices.*

Key words: *government regulations, institution control, political power, non-paid goals.*

1. The Definition of the Concept

Bureaucracy is a major sub-field of Public Choice. Bureaucracy is the set of regulations drawn by governments to control activity, usually in large organizations and governments. It is represented by a standardized procedure that dictates the execution of all processes within an institution, division of power, hierarchy and relationships. In every-day practice the interpretation and execution of policy leads to informal influence.

Bureaucracy is a concept in sociology and political science referring to the way in which the administrative execution of legal rules is socially organized. Four main concepts lie at the core of any definition of "bureaucracy":

- a well defined division of administrative labour among personnel and offices,
- a personnel system with consistent patterns of recruitment and linear careers,

- a hierarchy among offices, so that the authority and status be differentially distributed among personnel
- formal and informal networks that connect the organizational personnel to one another through flows of information and patterns of cooperation.

Examples of everyday bureaucracies include governments, armed forces, corporations, some non-governmental organizations (NGOs), hospitals, courts, ministries and schools.

The term "bureaucracy" was introduced by the French philosopher, Vincent de Gourmay, in 1765 and has had a negative connotation since its introduction. While the term "laissez faire", also introduced by de Gourmay, builds up an image of freedom of action and efficiency, the term "bureaucracy" suggests routines, constrained behaviour and inefficiency.

Modern bureaucracies arose as the government of states grew larger during the modern period and especially following the Industrial Revolution. Tax collectors became necessary as states

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began to take in more and more revenue, while the role of administrators increased as the functions of government multiplied. Along with this expansion, came the recognition of corruption and nepotism within the managerial system. All these led to a civil service reform on a large scale in many countries towards the end of the 19th century.

2. Modern Debates on Bureaucracy

Modern academics asked themselves to which extent elected officials do control their bureaucratic agents. Because bureaucrats have more information than elected officials about what they are doing and what they should be doing, bureaucrats might have the ability to implement policies or regulations that are against public interest. These concerns led to the "Congressional abdication" hypotheses, a claim that the American Congress had left its authority over public policy to appointed bureaucrats.

Theodore Lowi initiated this debate by concluding in a 1979 book that the U.S. Congress does not exercise effective control over bureaucratic agencies. He argues that policies are made by "iron triangles", consisting of interest groups appointed bureaucrats and Congressional subcommittees. It is thought that since 1979, interest groups have taken a large role and now do not only effect bureaucracy, but also the budgets. The idea of "iron triangles" has evolved to "iron hexagons" and then to a "hollow sphere."

The relationships between the government, interest groups, bureaucrats and the general public, all have an effect on each other. Without one of these pieces the entire structure would completely change. This relationship is considered a network so that not one single piece can describe or control the entire process.

The public votes in the government and the interest groups provide information,

but the government and bureaucrats have an effect on the interest groups and the public. The entire system is codependent on each other.

William Niskanen's 1971 budget-maximizing model completed Lowi's claims: Lowi claimed that governments failed to exercise oversight, Niskanen argued that rational bureaucrats will always and everywhere seek to increase their budgets, thereby contributing strongly to state growth. Niskanen went on to serve on the U.S. Council of Economic Advisors under President Reagan and his model provided a strong underpinning for the worldwide move towards the reduction of public spending and the introduction of privatization in the 1980s and 1990s.

Two branches of theories have arisen in response to these claims. The first focuses on bureaucratic motivations: Niskanen's general approach was criticised by a range of authors who argued that officials' motivations are more public interest-orientated than Niskanen allowed. The bureau-shaping model, made by Patrick Dunleavy, also argues against Niskanen's that rational bureaucrats should only maximize the part of their budget that they spend on their own agency's operations or give to contractors or powerful interest groups, that are able to organize a flow-back of benefits to senior officials. For example, rational officials will get no benefit from paying out larger welfare checks to millions of poor people, since the bureaucrats' own utilities are not improved. It should be expected that bureaucracies maximize budgets in areas like police forces and defence, but not in areas like welfare state spending.

A second branch of responses has focused more on Lowi's claims, asking whether governments can control bureaucrats. This research is motivated by the following concern: if we wish to believe that we live in a democracy, then it

must be true that appointed bureaucrats cannot act contrary to elected officials' interests. But this claim is itself debatable: if we fully trust elected officials, we would not spend so much time implementing constitutional checks and budget balances.

Within this second branch, authors have published numerous studies debating the circumstances under which elected officials can control bureaucratic outputs. Most of these studies examine the American case, though their findings have been generalized elsewhere as well. These studies argue that governments have a variety of oversight means at their disposal and they use many of them regularly. These oversight mechanisms have been classified into two types: "Police patrols" - actively auditing agencies and looking for misbehaviour and "fire alarms" - imposing open administrative procedures on bureaucrats to make it easier for adversely affected groups to detect bureaucratic malpractice and bring it to the government's attention.

A third concept of self-interested bureaucracy and its effect on the production of public goods was written by Faizul Latif Chowdhury. In contrast to Niskanen and Dunleavy, who primarily focused on the self-interested behaviour of only the top-level bureaucrats involved in policy making, Chowdhury in his thesis submitted to the London School of Economics in 1997 drew attention to the impact of the low level civil servants whose rent-seeking behaviour pushes up the cost of production of public goods. Particularly, it was shown with reference to the tax officials that rent-seeking causes loss in government revenue. Chowdhury's model of rent-seeking bureaucracy draws attention to administrative corruption where public money is directly expropriated by public servants in general.

3. The Power of Bureaucrats

The bureaucrat, like everyone else, can be assumed to be a selfish utility maximiser. But what is it that he maximizes? In 1947, Max Weber assumed that the bureaucrat's natural objective was power. "Power" is a concept frequently used by political scientists and sociologists and totally ignored by economists and practitioners of Public Choice. There is an interpretation of political power that is used not only in the political science and sociology literature, but also in the analysis of government and bureaucracy in Public Choice.

At intuitive level, the word "power" means the ability or capacity to do something. But "something" can stand for a variety of objects, each of which leads to a different kind of power. Physical power is the ability to apply force. Economic power is the capacity to purchase goods. Political power can be defined as the ability to achieve certain ends through a political process. To observe the exercise of political power, some actors must have conflicting goals. If all members of a group, including citizen X favours action A over action B and action A is chosen, we cannot say that citizen X has exercised power. If only citizen X favours action A and action A is chosen then, citizen X has political power.

In 1938, Russell defined three ways in which an individual can have influence in a political context: by exercising direct physical power, for example, by imprisonment or death; by offering rewards and punishments; by exerting influence on opinion through the use of propaganda. The first two are closely related to a more general type of political power, which is called "procedural power". A citizen will achieve his choice of an action because the rules of an institution make him dictator, or grant him the right to set the agenda by which the institution will choose that action.

It is the third source of influence Russell listed that is most closely related to the general notion of political power. Education, propaganda and persuasion are all forms of information. Information has value, or grants power, only if there is uncertainty. Uncertainty creates the potential to exercise power and information provides the capacity to do it. Political power means inducing someone to do something that he/she did not want to do, as when citizen X gets an institution to choose action A when all but citizen X favour an alternative action B.

The uncertainty of all institution members gives citizen X the power to induce the institution to choose action B over C, action C over D and so on until action A is reached. But if all institution members vote action B over A, they could impose action B by not voting for action C against B.

Returning to Russell's list of sources of power, it is easy to see that it is the uncertainty that surrounds a dictator's use of physical power or a supervisor's list of rewards and punishments that allows these people to control their subordinates. If citizen Y knows with certainty that citizen X will give him a reward if he does action A, then citizen Y, in carrying out action A, exercises as much power over citizen X as X does over Y. In a bureaucracy in which no uncertainty exists, authority might exist, but no real power will accompany authority.

All employees of an institution would know all of the possible events that might happen and all could predict the outcomes or decisions that would follow. Employee procedures would be completely codified and both the supervisor's and the employee's reaction to any situation would be very predictable. In a world of complete certainty, all individuals are essentially acting out a part and those at the top of the bureaucracies are as full of power as those

at the bottom. All power is purely procedural.

4. The Goals of Bureaucrats

The bureaucratic clerk pursues power. The economic entrepreneur pursues profit. In Knight's (1921) theory of profit, profit exists because of uncertainty and is earned by those who possess the daring and information to allow them to make correct decisions under uncertainty. So, there is a close link between the economic theory of profit and the political theory of power. Both profit and power exist because of uncertainty and both accrue to the possessors of information.

In the modern corporation, the information gatherers and processors of information are the managers. They are the possessors of power. A major difference between the business corporation and the public institution is that the power of managers can be paid off. The business of corporations is making profits and managers as information gatherers are its main beneficiaries.

Legally, corporations belong to the stockholders and the custom is that they are the rightful beneficiaries of corporate profits. So, managers are unable to pay themselves all the profits they create. They are forced to claim corporate profits in less conspicuous ways than simply salaries and cash bonuses. Numerous substitute goals have appeared: on-the-job consumption, excess staff and emoluments, security and a range of non-paid goals.

Many of the non-paid goals of managers are correlated with the size or growth in size of the corporation. Large size corporations can also be used as a justification for higher compensation packages and thus can allow managers to justify greater direct cash payments to themselves.

The bigger and more complex the firm is, the more difficult it is for stockholders

to monitor the activities of managers and the more power managers have. Size and growth in size are possible goals, along with profits, of corporate managers.

The pursuit of profits is not the legitimate goal of public institution and so, it is even more difficult for public bureaucrats to convert the power they have into income. The non-paid goals of management become the logical objectives of the public bureaucrat. Among these, size and risk aversion have received the most attention. The first systematic effort to study bureaucracies within a public choice framework was made by William Niskanen.

One of the key characteristics of a government institution is the nonmarket nature of its output. An institution does not typically supply a number of units of output as such, but levels of activities from which output levels must be inferred. The Ministry of Defence maintains numbers of combat personnel and weapon systems, although it supplies various units of defensive and offensive capabilities. Its budget is defined over the activities it maintains, even though the purchasers, the taxpayers and their representatives, are ultimately interested only in the final outputs of combat capabilities that these activities produce. The reason for this is obvious: it is easier to count soldiers and airplanes than it is units of protection. This measurement problem, inherent in all of the goods and services that public bureaus provide, creates a monitoring problem for the funding and control agencies. Given the immeasurable nature of a bureau's outputs, how can the purchaser monitor the efficiency of its production?

The monitoring problem is intensified by the bilateral monopoly nature of the bureau-sponsor relationship, which states that the buyer of a bureau's output would be a monopsonist. A public good is by definition consumed by all the people and

the agent of all the people is a monopsonist buyer on their behalf. It is known that the government may not engage in the supply of only pure public goods, but it remains the sole agent of whatever interest group it represents in dealing with public bureaucracies. Even if the government acts as the sole agent for the population, or an interest group, it does not necessarily have to buy from a single source, even though it often does.

The usual reason for granting a bureau a monopoly on the provision of a given service is to avoid wasteful duplication. There is some validity in this justification, but the monopoly nature of most bureaus frees them from competitive pressure to be efficient and denies the funding agency an alternative source of information by which to gauge the efficiency of the monopolist bureaus.

The inefficient production of a bureau's services is also affected by the scheme of compensation of bureaucrats. While managers in a private corporation can usually claim a share of the savings/profits generated by an increase in efficiency, public bureaucrats' salaries are either unrelated or indirectly related to improved efficiency. So, the public bureau is characterized by weak external control on efficiency and weak internal incentives.

If the bureaucrat has no financial incentive to pursue greater efficiency, what are his goals, and how are they related to efficiency? Niskanen listed the following possible goals of a bureaucrat: salary, perquisites of the office, public reputation, power, patronage, output of the bureau, ease of making changes and ease of managing the bureau. He then asserts that all but the last two are positively related to the size of the budget.

5. Conclusions

The concept of bureaucracy has come a

long way since the 18th century. Nowadays, bureaucratic institutions are to be found, I dare to say, in every state in the world, regardless of the form of government: from the young democracies of Eastern Europe to the post industrial capitalist countries on both sides of the North Atlantic or Japan, from the emerging giants of BRIC (Brazil, Russia, India and China) to the sunny fiscal paradises wherever.

As long as there is money to be made, interest groups will never give up trying to impose corporate wishes, as long as there is more power to be earned, elected politicians will constantly change, as long as there are promises taxpayers are willing to dream. A handful of bureaucrats want it all: the money of corporations, the power of elected officials and the dreams of a better life as all taxpayers want.

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