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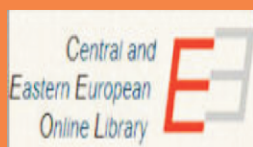


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EDITORIAL

Goodnight Romania, wherever you are!

Before a financial-economic crisis announced worldwide since early 2008, but long denied by local authorities, Romania seems left in beating wind.

Who can care for the potential disaster that scares a whole world as long as in this country the law-makers pretend not to hear the deafening voice of the global crisis. The more "soft" noise of a perpetual election campaign seems to be more like them.

The national political chromatic war, in which red, orange and yellow are the priority problems, make daily collateral victims.

The hopes of better of the Romanians are dying on the battle field, behind them remaining only "the against crisis election measures" - to increase pensions, to increase the wages by 50%, 25,000 Euro on arrival in the country, 1000 km of highway, and so on, which incites us to ask rhetorically:

In Romania, the crisis is economic or moral?

While most developed countries announce concrete measures to support investments, to lower the tax burden, we got the way around.

Government investments in Romania are, according to Caragiale, "sublime but missing entirely... oh, no, I almost forgot ... it was recently announced that, probably, later this year we'll see... the 42 miles of Transylvania highway (there are still 958 miles and the electoral promises shall come true).

The flat-rate tax introduces in the economy a vision that reaches the absurd of Kafka type - tax loss - and only demonstrates unequivocally the inability of the government to collect tax liabilities.

Moreover, the against crisis measures start to acquire hilarious issues, some of them resembling with those of the 80's of the last century. At Victoria Palace, one of the measures is a carbon copy to the period of "golden age". Concretely, it is about the reduction of lighting. The chosen method also belongs to the above-mentioned age: the unscrewing of bulbs.

Another against crisis idea came from a deputy. He has indicated his intention to amend the 2009-2010 school year, so that students to take benefit from a month holiday in winter, in

order to lower the costs. According to the legislative intentions of the deputy, the forthcoming winter holiday would take place between the 14th of December 2009 and the 10th of January 1010. And look how, in the end... it is the education that will take out the country from the crisis!

I can only conclude by paraphrasing an illustrious sentence from a U.S. serial ... "Goodnight Romania, wherever you are ... in this big crisis!

Lecturer Narcis Eduard Mitu Ph.D.

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THE COMPETENCES AND THE IMPACT OF EVALUATION CATEGORIES ON THE FIDELITY OF ACCOUNTING INFORMATION

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Abstract: Due to the fact that accounting evaluation has severe rules and principles, the economic evaluation has the role to assure the reflection of informational valences of an economic entity in order to mark out its capacity to produce future incomes. Even if the role and the characteristics of accounting evaluation are incontestable, we have to mention this process' consequences on the fidelity of accounting information, considering that a rigorous analysis cannot be realized without detecting the informational liaisons between the balance-sheet and evaluation.

JEL classification: M41, G34

Key words: fidelity, accounting information, accounting evaluation, international practice

The analysis of evaluating process' implications on accounting information cannot be realized without a perfect perception of the heterogeneous and diverse character of this process, of evaluation types, grouped and based on very relevant and specific criteria. From the object point we view, we can distinguish assets evaluation, assets groups evaluation, economic assets evaluation (work-rooms, departments, factories, warehouses, shops), companies evaluation.

From the purpose point of view, we can distinguish: accounting evaluation, realized with the occasion of booking the economic operations, of the stock-taking and the elaboration of balance-sheet; administrative evaluation, in fiscal purpose, for determining ratable value, and also those asked by law regarding the patrimony's re-evaluation in case of public companies; economic evaluation, with the purpose of reference to market conditions.

We also have to remind the role of the method user for evaluation – in this case we can distinguish patrimonial evaluation, result based evaluation (performance, profitableness, turnover), evaluation based on actual net cash-flow, stock evaluation, combined evaluation (patrimony and profitableness).

Because the evaluations are meant to satisfy a certain purpose, we join to specialist's opinion that affirm the existence of two main types: accounting evaluation and economic evaluation. The accounting evaluation is used in different methods, in measuring patrimonial phenomenon and operations and also with the occasion of

inventory and balance-sheet elaboration. The balance-sheet gives “a true image of the patrimony, of financial situation and company’s results only if the patrimony’s evaluation rules are followed”¹.

There are four general rules of patrimonial elements’ evaluation :

- evaluation at the moment of entry into the patrimony or input value (book value), depending on the asset’s acquirement way: purchase price including customs duties, transportation, assembling and putting into service costs; production cost for the company’s products; utility value, depending on the market price, for similar products and on product’s condition, if it’s received free of charge or donated; contribution value for the goods representing a contribution to social capital;

- evaluation at the moment of inventory – is made at the actual value or utility value of each element, named inventory value;

- evaluation at the end of the accounting period, patrimonial elements being evaluated and reflected in the balance-sheet at the input value or correlated with inventory’s results;

- evaluation at the moment of output from the patrimony, through sale, destruction or products’ consumption, using specific methods for stocks – FIFO method (first input – first output); LIFO method (last input-first output); CMP method (weighted average cost, calculated after every input or monthly by proportion between the total value of initial stock and of the inputs and entered quantity); registration or standard price method, but with the distinction of the differences accountable to acquisition prices or production costs. The utilization of any evaluation method must respect the principle of permanence, being justified the maintaining of the same method during some consecutive accounting periods.

Coming back to a previous problem, we mention that the accounting evaluation has a major weakness, in the sense that in all four evaluation moments it is used the historical cost, only partly corrected at the annual inventory and balance-sheet closing, with the reversible and irreversible depreciation of asset elements.

Another weakness of this evaluation form appears when in this calculus of financial and efficiency indicators it is taken the whole advanced capital, immobilized and circulating assets, even if a part of them doesn’t participate in obtaining company’s results (unutilized physical capital, damaged stock, voided orders, non-vendible products etc.). Unlike the accounting evaluation, the economic evaluation relates the evaluated object to market conditions. “The rational market value is the price, conveyed in money or equivalent, which a buyer and a seller could accept if the property would be sold on open market in a rational period, in the case that the seller and the buyer had valid information and either one of them isn’t forced by the necessity to act”².

The company’s value in this hypothesis is the correct one, determined by a neutral evaluator. Many times, the economic evaluation for selling-buying is determined by some motivation, the market value or the effective price of transaction deviating from this value. Trying a critical and comparative approach, we can say that, compared with the accounting evaluation which has strict rules and principles, the booking reflecting the patrimony in a given moment, the economic evaluation has the role to adjust the patrimony in order to produce future earnings.

¹ C. Staicu, M. Mihai, T. Ciurezu, *Bilanțul contabil și raportarea de semestru*, Editura Universitaria, Craiova, 2000, pag.43

² M. Gradinaru, D. Bucătaru, C. Mihai, *Evaluarea întreprinderilor în economia de piață*, Editura Junimea, Iași, 1997, pag.34

We agree to the specialist’s opinion that “the economic evaluation consists in a complex of techniques, proceedings and methods to value the products, the assets, the company at the market level, ensuring the comparability with this”³.

The functional liaisons between liquidity/exigibility, the grouping of reference elements based on exploitation cycle functions, allow three versions of financial balance-sheet: liquidity balance-sheet; functional balance-sheet; capital-resources-liquidity balance-sheet (also called “pool des fonds” in the sense of mobilizing the resources for capital preservation and obtaining optimal treasury flows).

The classification criteria are presented in table 1 and the types of balance-sheet on liquidity criteria, in table 2.

Table 1 The classification criteria for the three versions of financial balance-sheet

	Depending on the belonging to the operating cycle (assets and liabilities)	Depending on liquidity (assets) or exigibility (liabilities)	Depending on intrinsic nature (assets) or origin (liabilities)
ASSETS	Immobilized	More than 1 year	Operation (activity’ s necessary)
ASSETS	Cyclical	Less than 1 year	Financial
LIABILITIES	Permanent capital	More than 1 year	Own capitals
LIABILITIES	Cyclical debts	Less than 1 year	External capitals
	FUNCTIONAL BALANCE-SHEET	LIQUIDITY BALANCE-SHEET	CAPITAL / RESOURCES / LIQUIDITY

Table 2 Balance-sheet on liquidity criteria

Balance-sheet on liquidity criteria	
RETREATED NET ASSET “LIQUIDITY”	RETREATED LIABILITIES “LIQUIDITY”
Immobilized net assets (more than 1 year)	Stable resources (more than 1 year)
Immobilized and distributing expenses	Own capitals
Trade fund, patents, licenses	Loans and leasing
Own tangible assets	Supplier debts
Rent tangible assets	Fiscal debts
Financial assets	Other debts
Client debts	
Current assets (less than 1 year, current exploitation)	Current debts (less than 1 year, current exploitation)
Merchandise inventories	Supplier debts
Working material inventories	Fiscal and social debts
Intermediate and final products	Other debts
Client debts	Current debts outside the exploitation
Other debts	Loan and leasing

³ N. Sichigea, M. Dracea, D. Berceanu, T. Ciurezu, Gestiunea financiara a intreprinderii, Editura Universitaria, Craiova, 2000, pag.210

Balance-sheet on liquidity criteria	
RETREATED NET ASSET “LIQUIDITY”	RETREATED LIABILITIES “LIQUIDITY”
Current assets outside the exploitation	Fiscal and social debts
Financial assets less than 1 year	Other debts
Other debts	
Active treasury – available funds	Negative treasury – current account cropping, protested debts, failure debts
TOTAL RETREATED NET ASSET	TOTAL RETREATED LIABILITIES

This balance-sheet is considered less satisfying for financial analysts. The reclassification criteria based on annual cycle becomes arbitrary towards the operational character of the value concept with sensitive engagements to small fluctuations of the period. A reclassification of informational “utility” is detested by the jurisprudence.

Regarding the functional balance-sheet, there are two presentation forms : one in which it is utilized a retreated gross asset (table 3) and another in which it is utilized the retreated net asset (table 4).

Regardless of the chosen form, we consider that this kind of balance-sheet is closer to accounting logic of classifying patrimonial elements and the evaluation is better “underlined”, his role in alignment of the accounting information to the actual level market being perfectly accentuated.

Table 3 Functional balance-sheet (utilizations = gross assets)

FUNCTIONAL BALANCE-SHEET (UTILIZATIONS = GROSS ASSETS)	
“FUNCTIONAL” RETREATED GROSS ASSETS	“FUNCTIONAL” RETREATED LIABILITIES
Tangible assets (more than 1 year) gross	Stable resources (more than 1 year)
Immobilized and distributing expenses gross	Own capitals
Trade fund, patents, licenses gross	Amortization and depreciation provisions
Own tangible assets gross	Loan and leasing
Rent tangible assets gross	Cyclical exploitation debts
Financial assets gross	Supplier debts
Exploitation current assets gross	Fiscal debts
Merchandise inventories gross	Other debts
Working material inventories gross	Cyclical debts exceeding exploitation
Intermediate and final products gross	Fiscal and social debts
Client debts gross	Other debts
Other debts gross	Negative treasury
Active treasury net	
SUM TOTAL	SUM TOTAL

Table 4 Functional balance-sheet (utilizations = net assets)

FUNCTIONAL BALANCE-SHEET (UTILIZATIONS = NET ASSETS)	
“FUNCTIONAL” RETREATED NET ASSETS	“FUNCTIONAL” RETREATED LIABILITIES
Tangible assets (more than 1 year)	Stable resources (more than 1 year)
Immobilized and distributing expenses net	Own capitals
Trade fund, patents, licenses net	Amortization and depreciation provisions

FUNCTIONAL BALANCE-SHEET (UTILIZATIONS = NET ASSETS)			
“FUNCTIONAL” RETREATED NET ASSETS		“FUNCTIONAL” RETREATED LIABILITIES	
Own tangible assets	net	Loan and leasing	
Rent tangible assets	net	Cyclical exploitation debts	
Financial assets	net	Supplier debts	
Exploitation current assets	net	Fiscal debts	
Merchandise inventories	net	Other debts	
Working material inventories	net	Cyclical debts exceeding exploitation	
Intermediate and final products	net	Fiscal and social debts	
Client debts	net	Other debts	
Other debts	net	Negative treasury	
Active treasury	net		
SUM TOTAL		SUM TOTAL	

In our opinion, the first version is preferable. Depreciation and provisions are resources in liabilities and the assets are calculated as gross values. This fact permits the calculus of financial concepts – the need for working capital, financing table, self financing capacity through stable resources.

In the model of capital-resources-liquidity balance-sheet, assets are understood as an investment portfolio with a “composite” structure: immobilizations, working capital need, financial assets and liabilities are analyzed as a resource portfolio with internal and external origin, the debts being structured depending on the due date, as it is shown in table 5.

Table 5 The model of capital-resources-liquidity balance-sheet

	ASSETS	LIABILITIES	
Risks and economic profitableness	Exploitation assets Immobilizations	Own capitals	Financial profitableness
	Working capital need Treasury		
Invested treasury Financial risk	Financial assets Immobilizations	Stable financial debts	Financial risk

The evaluation of balance-sheet is determined in terms of risks. This approach is separate from the judicial vision on the balance-sheet and allows a better appreciation of company’s evolution in a long period of time, in terms of strategy – investment/financing. The functional balance-sheet appreciates the evolution of the financial equilibrium, for risks on short term. The “capital-resources-liquidity” balance-sheet appreciates the evolution, strategy and risks on long term.

The manifestation of property real right involves assumes responsibility for two kinds of decisions : investment decisions and financing decisions.

The operation of investment assumes asset acquisitions to the purpose of increasing owners’ fortune. The asset portfolio has a main component in tangible assets and a second component in exploitation net asset. The financing operation pursuits the distribution between own funds and financial debts – the distribution and capitalization of results – alternative choice between the internal financing and external financing. The financing structure in the balance-sheet is based on two components : own capitals and financial debts. The balance-sheet model represents the adequate answer to users’ needs, in quantitative and qualitative terms of equilibrium report which characterizes the management of patrimony resources.

The annual accounts are made based on closing of accounting period, founded on inventory, by determining in real proportion the patrimonial structures that have to give a real image of the patrimony, of the financial situation and of the result.

From the juridical point of view, the balance-sheet reflects in assets real rights and property conditioned rights (goods, rights – debts), and in the liabilities reflects debts (external liabilities – debts to third parties, internal liabilities – debts to owners).

From the economic-financial point of view, the balance-sheet reflects the resources invested by the company, their utilization after their nature, own capitals, which regroups funds or benefits, foreign capitals which represents disposed funds from the third persons. In the balance-sheet the reference amounts appear at effective values, conforming the book registration value with the inventory value, respecting accounting rules.

The international practice shows that the balance-sheet model can be connected to the management accounting system as well as to the fiscal or juridical accounting system. In the first case the balance-sheet represents the economic reality and assures the rigor of management control, in the second case the balance-sheet is used as a mean of fiscal and juridical control. The recent developments oppose two conception plans: the “economic” optics towards the “juridical” patrimonial traditional optics.

The juridical conception emphasizes the property rights measured according to accounting principles, in a “prudent optics”. The economic conception emphasizes the real functioning of the company, independent of juridical rules.

The debate has its origin in the works of Eugen Schmalenbach and it is made very actual by the numerous surveys which favor the functional analysis of the balance-sheet, but cannot hide the complexity of the problem : there are many ways to approach the evaluation from the perspective of economic environment in which the company performs, and the juridical optics is favored if the mane users are the creditors, the revenue authority.

Pure conceptions are rare. The juridical optics may borrow many elements of economic optics as the normalizing executive institutions adapts the norms and juridical obligations according to the economic reality. We consider that in high inflation periods the necessity of re-evaluation imposes on a high degree of generality, but in the juridical optics a rigid model cannot exist, and the choice is a matter of accommodation

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MEZZANINE DEBT: BENEFITS OR DRAWBACKS FOR FIRM'S FINANCING?

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Abstract: Mezzanine finance is an alternative source of finance to debt and equity and it can be helpful in financing the start-up and firms' expansion. But in order to take their investment decisions, the firms should compare the benefits and challenges generated by this form of financing in function of their development stage or the specific features of their activities. Despite the fact that mezzanine finance instruments are gaining in importance, and the advantages overtake the disadvantages, they still remain little used compared with traditional forms of financing (loan financing).

JEL classification: G32, M21

Key words: mezzanine debt, financing, firm, benefits, disadvantages

Introduction

Nowadays the access to finance become more and more restrictive: the existing credit lines have been reduced and new loans from traditional lenders are difficult to obtain. Also, the access to the public capital markets is virtually non-existent.

Moreover, in the new circumstances generated by the international financial crisis, the firms have to face the difficult economic condition and an increasing need for major investments. Also, the continuing turmoil from the financial markets made lenders more risk averse and consequently, they continue to reduce the availability of credit and limit leverage (von Bradsky and French, 2008). Therefore, alternative forms of financing such as mezzanine debt are becoming more and more a supplement to the traditional forms of corporate financing for firms (Brokamp et al, 2004), (Glen, 2006).

As a hybrid form of capital, mezzanine debt is placed between senior debt and equity in a company's capital structure and it is used whenever there is a financing gap between the two layers (Abassi, 2004).

In fact, the term "mezzanine" (from the Italian "mezzanino") derives originally from architecture and denotes an intermediate floor between two main floors in a building (Credit Suisse, 2006). Structurally mezzanine debt is subordinated or "junior" in priority of payment to senior debt, but senior to common stock or equity (Silbernagel and Vaitkunas, 2006).

Because to its hybrid nature, mezzanine capital has a range of advantages compared with traditional forms of corporate financing, which allow it to be used for financing the SMEs, as well as the larger companies. Also, mezzanine financing can provide additional capital to middle-market businesses in a manner gaining understanding and acceptance throughout the capital markets (Sprink, 2003).

Mezzanine capital typically is used to fund a growth opportunity, such as an acquisition, new product line, new distribution channel or plant expansion.

The last decade, the role of mezzanine debt gradually moved into different field of lending as a result of an increasing awareness of the many different forms it can take and its potential advantages and benefits for borrowers, shareholders and commercial lenders.

Mezzanine Debt - definition and main characteristics

Mezzanine debt refers to that layer of financing between a company's senior debt and equity, in a three layer structure of a firm's capital, (figure 1).

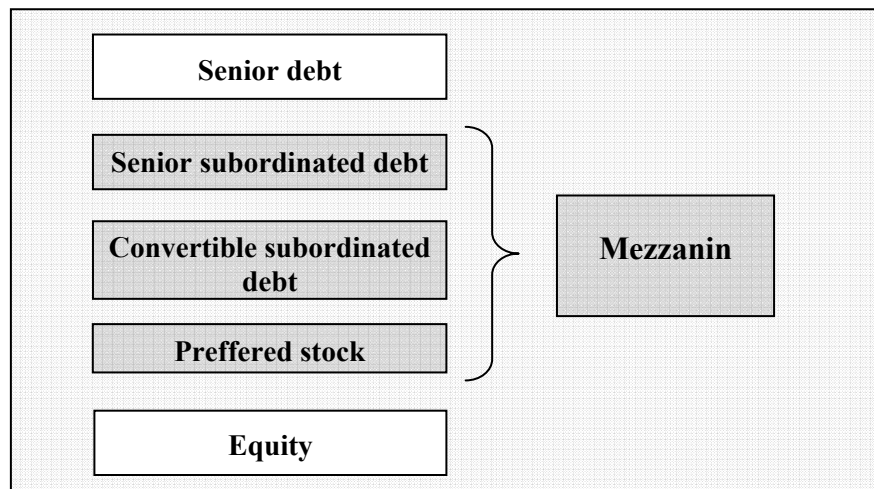


Figure no. 1 Mezzanine debt – bridging the gap between debt and equity

Source: Silbernagel, C., Vaitkunas, D., Mezzanine Finance, Bond Capital, Jan. 2006

The three layer structure consisting of senior debt, mezzanine debt and equity is the most commonly used in the private equity world. Each layer is different and has its own unique characteristics and its own risk/reward profile:

- First layer - Senior Deb which involve low risk, low cost, short term and is the least flexible. This is the most common form of financing used by businesses. It is generally the least expensive form of capital and has first priority in the event of liquidation (Jamison and Bitoni, 2007);

- Second layer - Mezzanine Debt involve a moderate risk, moderate cost, long term, flexible. Structurally, the mezzanine debt is subordinate in priority of payment to senior debt, but senior in rank to common stock or equity. Mezzanine debt generally has a higher risk and potential return than senior debt but a lower risk and potential return than equity (Carew, 1996);

- Third layer - Equity which involve high risk, high cost, long term and it is the most flexible.

Regarding the using of the three layer structure the followings should be mentioned:

- each layer of capital can be used on its own or in conjunction with other layers in varying degrees for any given transaction;

- there is no rule that requires equity to be used in every transaction nor is there a rule that requires senior debt or mezzanine debt to be used in every transaction;
- each of these layers has advantages and disadvantages and can be mixed and matched to fit the unique needs of each business.

In a broader sense, mezzanine debt may take the form of convertible debt, senior subordinated debt or private "mezzanine" securities (debt or preferred equity) (Credit Suisse, 2006).

The most common form of mezzanine debt is the *subordinated debt*, which is an unsecured loan with a lower ranking in case of bankruptcy compared to senior debt. Providers of subordinated loans receive a fixed interest rate and are ranked before equity investors should the borrower be wound up.

Participating loans are normal loans, but rather than there being a fixed return, their remuneration is contingent upon the results of the business. Despite sharing in profits, participating loans do not give rise to an ownership relationship. Participation in losses is contractually excluded.

In legal terms, a "*silent*" participation is closer to a stockholding than a subordinated or participating loan. The distinguishing feature of this form of financing is that one or more persons take an equity stake in a company, but without assuming any liability to the company's creditors. The typical "silent" participation affects only the company's internal affairs and is not apparent to outside observers. Participation in profits and losses and contractual rights of approval and control are structured flexibly.

There are also equity related mezzanine finance instruments. These instruments present a greater risk profile to the lender and, in turn offer a higher rate of return. Mezzanine products with *profit participation rights* are more related to equity and under company law the holder is entitled to rights over the company's profits. In general the financier has no voting or management rights. However, the instrument is rather flexible and the right to be consulted on business decisions can be included in the contractual documents.

A further equity mezzanine financing instrument is the *convertible bond*. In addition to the usual right to fixed interest payments and repayment of principal, holders of convertible bonds or bonds with warrants have the right to acquire shares in the company instead of accepting repayment of the bond. This right is exercisable for a defined period and at a predetermined conversion or subscription rate. This way the issuer may convert debt into equity.

Another equity mezzanine financing instrument is the *bond with warrants*, which in principal is similar to the convertible bond. The main difference is that the warrants (subscription rights) are separate from the bond and thus can be traded independently.

A common feature of these various instruments is that they can be combined in many different forms and offers flexibility with numerous amortization and interest payment scenarios in order to provide tailor-made solutions for the specific financing requirements of private and listed companies.

The mezzanine finance can be a complementary source of finance to debt and equity and can be helpful in financing the start-up and expansion, innovation and business transfers (figure 2).

The types of transactions that are typically financed through mezzanine debt are: capital to finance acquisitions and investments; buy outs such as management and

leveraged buyouts; buy-ins; recapitalizations; middle to late stage expansion or growth capital; divestitures; recapitalizations; public to private transactions.

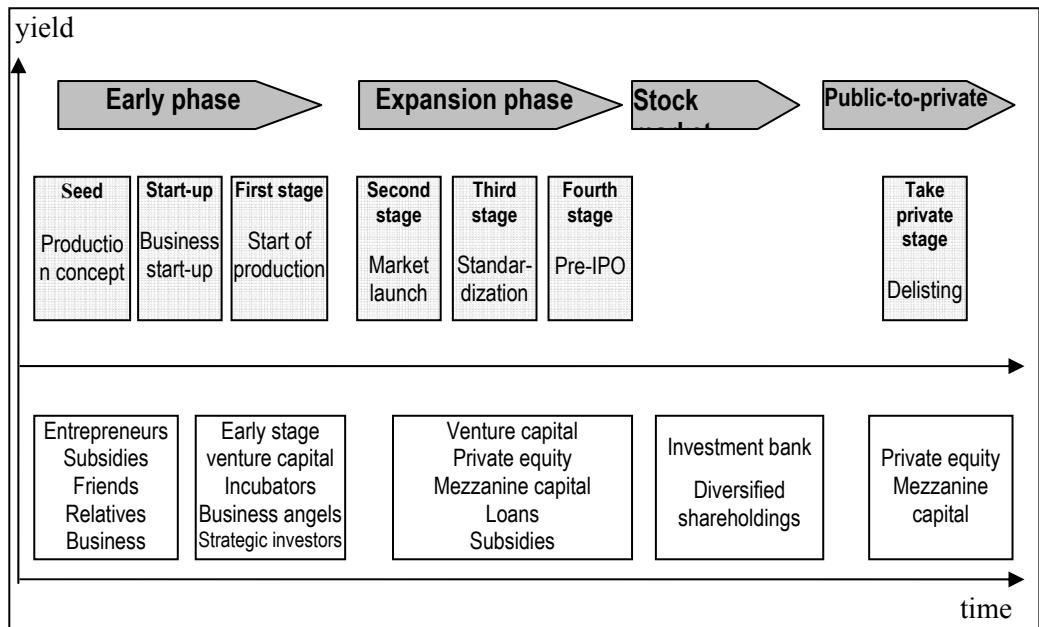


Figure no. 2 Phases in a firm’s development and financial instruments

Source: European Commission, Mezzanine Finance. Final Report, Roundtable between bankers and SMEs, Enterprise Publication, 2007

Companies considered “ideal” mezzanine transactions have consistent historical cash flows, a diversified base of customers, a proprietary product, a market and/or a technology edge, an experienced management team and a well capitalized balance sheet. Additionally, mezzanine investors seek to invest in companies in which the management team owns a sufficient equity stake to ensure that the team is adequately motivated to build a successful company (Abbasi, 2004).

Pros and Cons for using the mezzanine debt

In general, mezzanine debt is a flexible financing alternative for companies which fulfill the following requirements:

- insufficient/unavailable possibilities for funding from own resources or loans;
- healthy financial position, stable cash flows and steady profit growth;
- focused business strategy and long-term development prospects;
- appropriate finance and accounting function, open information policy.

In order to make their option for this form of financing, the firms should take into consideration the advantages and disadvantages of the mezzanine debt.

Mezzanine finance products usually have the following positive features:

- improves the balance sheet structure;
- offer a better access to additional loans or equity (leverage effect) because the confidence of a mezzanine capital provider increases the image of the company;
- greater entrepreneurial freedom for the company and limited right of mezzanine investor to be consulted. The company can retain control over the company

and avoid surrendering ownership rights, using the appropriate form of mezzanine finance, because mezzanine investors do not usually seek the right to be consulted and to participate in the management of the investee company;

- strengthens economic equity capital without the need to dilute equity holdings or surrender ownership rights;

- stability of financing given its long-term availability;

- offer tax-deductible interest payments;

- the flexible remuneration of a mezzanine instrument. Thus, the standard arrangement includes, in addition to an interest component, a performance-related bonus in the form of a share in the performance of the company, or an option to acquire or receive equity interests;

- it can be a very useful financial tool in the cases of business expansion, business transfer, innovation and public to private transactions.

Also, it should be taken into consideration that most mezzanine loans are from five to seven years in length, with the possibility of early repayment. Repayments are often not required until maturity, unlike bank debt, which usually requires amortization. Thus mezzanine financing allows a business owner to reinvest cash flow in growth opportunities rather than paying back senior debt.

Amounts attracted via mezzanine financing can be substantial. A company can leverage its cash flow and obtain senior debt between two times and 3.5 times cash flow. With mezzanine debt, it can raise total debt to four to five times cash flow depending on the risk appetite in the debt markets (von Bradsky and French, 2008).

The companies with foreign operations may get additional benefits of:

- alignment of the shareholder base with the asset, revenue, profit, tax and customer bases;

- further cost of capital improvements that can arise from some cross-border structures.

But mezzanine finance provides also some disadvantages for the firms:

- mezzanine debt is more expensive than debt financing. Mezzanine capital should therefore be seen as complementary to traditional debt capital and appropriate only in cases where the funding requirement is larger than the amount that can be raised using conventional debt financing and equity resources;

- mezzanine debt is often difficult to obtain by small firms because there are more stringent transparency requirements to meet in order to obtain this type of finance;

- the interest component and the debt-like characteristics of mezzanine finance make it difficult for suppliers of mezzanine finance to arrange an early exit;

- mezzanine debt is an unsecured form of financing that is principally a loan relying on an “equity kicker” – usually a warrant – to boost the return on the loan to compensate for the greater risk inherent in a junior position to a senior lender (Abassi, 2004);

- in contrast to equity capital, mezzanine funds are generally made available for a limited period of time, until the business can generate sufficient “genuine” equity capital from retained profits;

- this form of financing is not appropriate for particular types of company and business phases. Therefore, the mezzanine is unsuitable for financing restructurings; the companies with a weak market position and negative development prospects; with inadequate finance and accounting function; with high leverage or low equity resources.

From the investors' perspective, mezzanine debt have also some advantages, as follows:

- access to a new investment segment;
- investment platform independent of stock and bond markets;
- optimal opportunities for diversification;
- the revenues for providers of mezzanine finance are higher than for debt;
- mezzanine lenders can provide valuable strategic assistance;
- lower exit risk and better protection of capital compared with private equity investments because in the case of mezzanine finance the contract usually provides for the repayment of the principal, and the remuneration of the instrument is covered by the company's cash flows.

There are also few disadvantages of mezzanine finance for investors such as:

- the difficulty to exit early and the wrong assessment of creditworthiness leads to lower returns;
- the mezzanine provider cannot rely on real security in making an investment decision because mezzanine capital is subordinated and unsecured. The ability of a company to repay capital raised therefore depends largely on the total cash flows it will be able to generate in the future. Consequently, it is an important precondition for raising mezzanine capital that the earning power and market position of the existing business should be well established and stable.

Conclusions

Mezzanine debt is a collective term for hybrid forms of finance: it has features of both debt and equity. Thus, the key feature of the mezzanine debt consist on the followings:

- subordinate financing (to debt capital);
- no collateral required;
- serves as economic equity and helps to strengthen the company's equity ratio;
- allows additional borrowing if necessary (leverage effect);
- long-term financing and repayment at end of maturity;
- flexible pricing (fixed and variable components).

In a company's capital structure, mezzanine debt is subordinated to senior debt but ranks ahead of equity. It carries a higher rate of interest than senior debt and is often bundled with warrants on the company's equity. Beyond these common characteristics, mezzanine securities can be designed to meet a broad range of financing needs and risk/return targets by combining various structural features. Together, these features can create compelling investment opportunities, combining the relative security of a debt instrument, attractive cash flow characteristics and the potential to participate in the profits of the borrower.

As alternative source of finance to debt and equity, mezzanine debt can be can be raised for a variety of purposes by the firms, such as:

- acceleration of organic growth or expansion into new markets;
- enabling capital for an identified acquisition;
- partial liquidity events for estate planning purposes (e.g., recapitalizations);
- restructuring debt mix to reduce reliance on senior debt.

Because of its hybrid nature, mezzanine capital combines the benefits of debt and equity finance, such as: protection of ownership rights, no dilution of existing holdings, stability of financing given its long-term availability; ease of budgeting

thanks to fixed-interest agreements; improvement in balance sheet structure. By mixing the characteristics of debt and equity instruments, mezzanine debt provides borrowers with financial flexibility and investors with attractive risk-adjusted returns and current cash flow.

On the other side, the mezzanine finance provides also some challenges for firms: it is more expensive than debt financing; the difficulty in obtaining the mezzanine debt because there are more stringent transparency requirements; capital is provided for a limited term in contrast to pure equity capital. For the investors, the fact that the mezzanine capital is subordinated and unsecured can generate a lack of security in making an investment decision.

In spite of the obstacles, the mezzanine debt is an alternative worth exploring for firms and an useful tool in corporate finance because it can be negotiated and structured to precisely meet the financial requirements of a company. The mezzanine debt market is very sophisticated and the loan structuring possibilities are limited only by the creativity of the negotiators.

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ROMANIAN BANK LENDING DURING THE FINANCIAL CRISIS

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Abstract: This paper examines the effects of the financial crisis on lending within the Romanian banking system. Lending in Romania contracted significantly since the fall of last year for two reasons. On one hand, the central bank's new crediting norms, that intended to limit borrowing risks, entered into force in October 2008 and forced banks to take extra-measures. On the other hand, the first signs of the economic crisis started to show in Romania at the same time and affected the lenders' liquidity. The development of Romanian bank lending at the end of 2008 reflected the impact of both credit demand and especially credit supply.

JEL classification: G01, G15, G21

Key words: financial crisis, bank lending, credit demand, credit supply, household loans, corporate loans

Financial crisis erupted in 2007 in United States from the high number of defaulting borrowers with sub prime mortgages, leading mortgage lenders to bankruptcies. Problems with loan quality in the sub prime mortgage sector forced the failure of some lenders in the primary market, but had much wider repercussions, figuring prominently in solvency problems in institutions outside the United States and contributing to increased market volatility and the virtual drying up of liquidity in the interbank and short-term money market. Major central banks have responded to the crisis with emergency injections of liquidity, and the Fed has also lowered the federal funds rate in order to deal with the crisis and prevent stronger effects of the market turmoil on the wider economy. Meanwhile, as a consequence of the crisis, leveraged buyout activity has slowed and many announced deals are either being reprised or cancelled.

The financial crisis of 2008, which started in the summer of 2007, has now assumed global manifestations. A crucial aspect worth studying is how the financial crisis affects the real economy through the supply of credit to customers. Credit crisis directly affected by the financial crisis, is expanding in Europe, leading to a blockage in bank lending due to sudden decrease in the level of economic confidence and activity slowing. It is estimated that the current crisis will last about 2 years, because companies will adapt, although the global economy will enter a period of less dynamic growth.

The initial channel of the crisis was the real estate market, which hit companies in European countries (Great Britain, Ireland, Italy and France). In addition, the real estate crisis followed by the financial crisis led to a significant worsening of the credit risks in these countries. In Italy, the credit risks for companies are deteriorating in the

context of weak growth, rising costs and blocking loans. In France, there was a significant increase of non-payment incidents for companies (up to 75% at the end of September 2008 compared to the end of September 2007). This deterioration due to slowing business was caused mainly by difficulties faced in accessing corporate credit. In Britain, the financial and real estate crisis have strong impact on consumption and companies expenditure leading to a 14% increase in company bankruptcies in the first half of 2008. In Ireland, real estate crisis has spread to the entire economy, causing a recession and non-payment incidents for companies have increased by 75% in the first half of this year.

In a market-based economy, the financial sector channels the supply of funds from savers to the demands of borrowers, which supports the wealth-creating abilities of the entrepreneurial sector. At the same time, the performance of the financial sector also depends crucially on the health of the economy. Typically, growth of loans at commercial banks declines sharply before a recession. Clearly, bank actions to limit the credit supply can exacerbate an economic downturn. For example, banks typically tighten credit standards and/or loan terms as the economy weakens and nonperforming loans increase. But an adverse shock from outside the financial sector can be just as important such as a sharp increase in oil prices or a plunge in house prices. Such shocks also slow the demand for credit because of weaker future growth of incomes and profits. In large and open economies, forces that trigger changes in the supply and demand for credit are often synchronized and difficult to distinguish.

A reduction in lending does not, by itself, show that there was a decline in the supply of credit. It is possible that the recession and general economic uncertainty reduced the demand for credit by corporate borrowers. To separate supply and demand effects, bank lending can be related to a bank's willingness or ability to lend during the crisis.

In Romania, the international financial crisis and changes in credit standards have resulted in a decrease in applications for mortgages. Lending in Romania contracted significantly since the fall of last year for two reasons. On one hand, the central bank's new crediting norms intended to limit borrowing risks, entered into force in October 2008 and forced banks to take extra-measures. On the other hand, the first buds of the economic crisis started to show in Romania at the same time and affected the lenders' liquidity, hampering lending. As an effect of the economic crisis, loans to people and companies in Romania clutched by 1.5 billion euros in January 2009 to 48.26 billion euros despite a 4.2 percent advance in December 2008.

Loans in local currency decreased in January by 1.1% in real terms, for the fourth month in a row, while loans in foreign currency, expressed in euros, dropped by 0.1%, compared with 1% last December, according to the data of the National Bank of Romania.

In real terms, private lending in lei started to fall after the breakout of the financial crisis in Central and Eastern Europe, namely in the last quarter of 2008, by 2.4% in December, by 0.7% in November and by 0.4% in October. Foreign currency lending fell in November by 0.9% on the month, expressed in euros, but hiked 2.3% in domestic currency. In October 2008, foreign currency loans rose 0.4% in euros and decreased by 1.5% in lei. In the last part of 2008, lending was almost blocked due to the financial turmoil, as well as due to the implementation of new, more restrictive household lending rules by the central bank. In nominal terms, January was the first month after October when loans rose, expressed in lei and in foreign currency as well.

Private lending in foreign currency, expressed in lei, rose 7.2% on the month in January, compared with a 4.4% growth in December, while loans in lei rose 0.1%, after a 2.1% drop in December.

At the end of 2008, development of lending standards and terms regarding both companies and households has confirmed the trend that was previously recorded, with a significant tightening, more pronounced in household lending.

Lending standards concerning small and medium companies were hardened faster than banks expected, while the situation regarding large companies was reverse. Factors that contributed to this situation were: expectations for the entire economy, risk associated with the industry the company operates, risks associated to required collateral and changing the weight of bad loans in bank portfolio. Risks associated to companies increased. In this regard, the main sectors regarded were construction and real estate transactions.

Households lending standards were severely tightened in the whole banking sector for both consumer and housing loans. Lending terms have become considerably more restrictive, most significant developments were that concerning the decreasing of debt service ratio in monthly income and the increase of risk premium paid by customers.

Thus, during March to May 2008 the growth rate of loans granted to the private sector slightly reduced and posted a faster decline between June and August 2008, so that in the September-November 2008 the growth rate of lending to private sector diminished rapidly, reaching the lowest level of the last three years (-9.3% to 34.9%). The trend of decline that characterized the dynamics of credits both in lei and foreign currency, posting a three and a half year low. However, loans in foreign currency continued to be more dynamic than those in domestic currency (particularly in case of households) so that the average share of foreign currency loans in total lending to the private sector recorded a peak of the last three years (55.9%).

Table no. 1. Loans granted by credit institutions to households in the Romanian banking system in 2008 (million lei)

Period	Lei	EUR	Other currencies	Total
Jan.	33944.2	33086.1	7115.7	74146.0
Feb.	34778.4	33990.9	7903.7	76673.0
Mar.	35712.0	35200.0	8730.0	79642.0
Apr.	36608.8	36035.0	9091.2	81735.0
May	37358.1	36903.0	8990.3	83251.4
Jun.	38045.0	38944.8	9928.4	86918.2
Jul.	39297.9	38733.6	9791.2	87822.7
Aug.	40249.4	40204.0	10105.2	90558.6
Sep.	41016.6	43540.8	11490.0	96047.4
Oct.	41377.9	42451.5	11935.7	95765.1
Nov.	41299.7	43881.4	11644.2	96825.3
Dec.	40944.3	45814.6	12451.3	99210.2

Source: NBR, *Monthly Bulletin No. 12/2008*

These developments reflected the impact of both credit demand and especially credit supply. The latter came under more intense pressure from several factors, such

as:

- the implementation of the new provisioning coefficients in relation to foreign currency loans (NBR Regulation No. 4/2008 amending and supplementing NBR Regulation No. 5/2002 on the classification of loans and placements as well as the setting up, regularization and use of specific provisions for credit risk and the methodological norms for the enforcement thereof);
- tightening of external financing conditions for banks;
- reduction of the liquidity surplus in the banking system;
- increasing prudence of credit institutions based on increased adverse selection risk;
- customers' lower degree and/or scope of eligibility (partly due to the enforcement of NBR Regulation No. 11/2008 amending and supplementing NBR Regulation No. 3/2007 on limiting credit risk associated with loans to households, effective as of October 2008);
- more restrictive lending terms and conditions;
- increased interest of banks for government securities and external assets (although their share in the monetary balance sheet remained subdued).

Table no. 2. Indexes for estimating the relative variance of household loans in the Romanian banking system in 2008 (%)

	Lei	EUR	Other currencies	Total
Feb./Jan.	102.46	102.73	111.07	103.41
Mar./Feb.	102.68	103.56	110.45	103.87
Apr./Mar.	102.51	102.37	104.14	102.63
May/Apr.	102.05	102.41	98.89	101.86
Jun./May	101.84	105.53	110.43	104.40
Jul./Jun.	103.29	99.46	98.62	101.04
Aug./Jul.	102.42	103.80	103.21	103.12
Sep./Aug.	101.91	108.30	113.70	106.06
Oct./Sep.	100.88	97.50	103.88	99.71
Nov./Oct.	99.81	103.37	97.56	101.11
Dec./Nov.	99.14	104.41	106.93	102.46

At the same time, credit demand has been negatively influenced by:

- the strong increase of interest rates for lending;
- deterioration of market operators' expectations regarding economic and financial conditions;
- low-income households potentially reaching the indebtedness ceiling;
- the weaker domestic currency and increased uncertainties surrounding its evolution;
- maintaining a high level of foreign financing for non-banks.

Table no. 3. Loans granted by credit institutions to non-financial corporations in the Romanian banking system in 2008 (million lei)

Period	Lei	EUR	Other currencies	Total
Jan.	33892.0	38540.2	3976.2	76408.4
Feb.	35041.1	38866.3	3918.1	77825.5
Mar.	36767.7	40352.8	3972.4	81092.9
Apr.	38423.8	40647.0	4170.4	83241.2
May	39439.6	41476.4	3857.5	84773.5

Period	Lei	EUR	Other currencies	Total
Jun.	40051.3	42848.9	4000.8	86901.0
Jul.	40657.0	41864.3	3961.6	86482.9
Aug.	41198.0	42962.8	4461.6	88622.4
Sep.	42285.0	46305.7	4990.4	93581.1
Oct.	42492.5	44963.4	5573.2	93029.1
Nov.	42424.2	46295.6	5469.4	94189.2
Dec.	40945.8	48942.3	4717.4	94605.5

Source: NBR, Monthly Bulletin No. 12/2008

Table no. 4. Indexes for estimating the relative variance of corporate loans in the Romanian banking system in 2008 (%)

	Lei	EUR	Other currencies	Total
Feb./Jan.	103.39	100.85	98.54	101.85
Mar./Feb.	104.93	103.82	101.39	104.20
Apr./Mar.	104.50	100.73	104.98	102.65
May/Apr.	102.64	102.04	92.50	101.84
Jun./May	101.55	103.31	103.71	102.51
Jul./Jun.	101.51	97.70	99.02	99.52
Aug./Jul.	101.33	102.62	112.62	102.47
Sep./Aug.	102.64	107.78	111.85	105.60
Oct./Sep.	100.49	97.10	111.68	99.41
Nov./Oct.	99.84	102.96	98.14	101.25
Dec./Nov.	96.52	105.72	86.25	100.44

During this period, the supply of loans was stymied by the contraction of banks' excess liquidity and the tightening of external financing conditions for credit institutions. The growth rate of household and corporate loans continued to decelerate across all categories, along with the sizeable contraction in the volume of new business to households and non-financial corporations. The dynamics of the household loans granted in Swiss francs posted the sharpest deceleration, with credit institutions relinquishing almost entirely their lending activity in this currency in November 2008. At corporate level, the worst hit category was that of loans with a maturity of over 5 years (accounting for 28.5 percent of total corporate credit), whose foreign currency component recorded, for the first time, three successive monthly retrenchments in terms of volume.

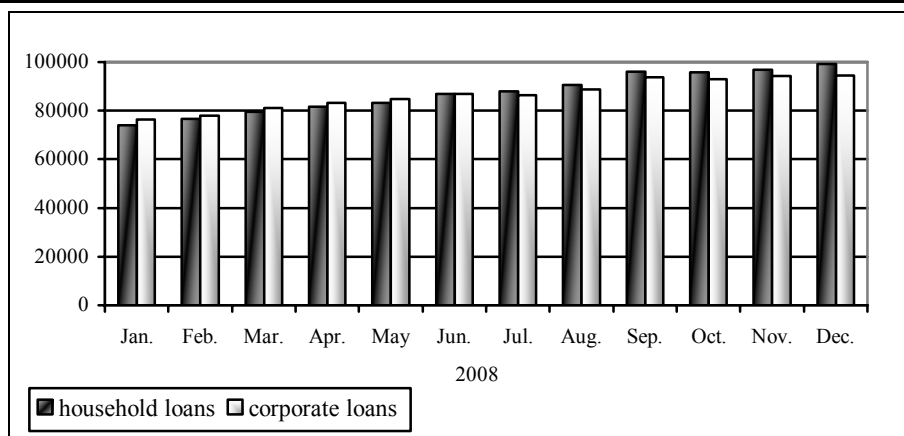


Figure no. 1. Household and corporate loans granted by Romanian credit institutions in 2008

In conclusion, we can say that the development of loans granted to households and non-financial companies by the Romanian credit institutions was a immediate consequence of a prudent policies provided by the National Bank of Romania which has materialized in:

- slowing down the expansion of credit to the private sector;
- supporting lending in domestic currency to the detriment of foreign currency credit;
- limited overall risk exposure;
- low share of overdue and doubtful loans in total loan portfolio (1.1% as of September 2008).

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MODERN SOLUTIONS FOR THE BANKING DISTRIBUTION CHANNELS: E-BANKING – STRATEGY, COST AND BENEFITS

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Abstract: The banking industry is expected to be a leading player in e-business. Banks have established an Internet presence with various objectives. Most of them are using the Internet as a new distribution channel. Financial services, with the use of Internet, may be offered in an equivalent quantity with lower costs to the more potential customers. In the Romanian case, there have been identified some specific issues that restrain e-banking adoption: penetration and skills (PC, Internet), attitude towards technology, security and privacy concerns; trust in banking institutions, banking culture, e-banking culture, Internet banking.

JEL classification: G01, G15

Key words: Internet banking, mobile banking, home banking, e-banking strategy, security.

1. Introduction

Banks have established an Internet presence with various objectives. Most of them are using the Internet as a new distribution channel. Financial services, with the use of Internet, may be offered in an equivalent quantity with lower costs to the more potential customers. This means that banks may enlarge their market without opening new branches. The banks in the US are using the Web to reach opportunities in three different categories: to market information, to deliver banking products and services and to improve customer relationship. In Asia, the major factor restricting growth of e-banking is security, in spite of several countries being well connected via Internet. Still, majority of banks in Asia is offering only basic services compared with those of the developed countries. Still, e-banking seems to have a future in Asia. E-banking will succeed if the basic features, especially bill of payment, are handled well. The banks have already started focusing on increasing and improving the e-banking services. As a part of this, the banks have begun to collaborate with various utility companies to enable the customers to perform various functions on-line.

In Europe, the Internet is accelerating the reconfiguration of the banking industry into three separate businesses: production, distribution and advice. This reconfiguration is further driven by the Internet, due to the combined impact of: 1. The emergence of new, more focused business models, 2. New technological capabilities that reduce banking relationship and transaction costs, 3. High-degree of uncertainty over the impact that new entrants will have on current business models. Though e-banking in the Europe is still in the evolutionary stage, it is very clear that it is having a

significant impact on traditional banking activities. Unlike the US, though large banks in the Europe have a competitive edge due to their ability to invest in new technologies, they are still not ready to embrace e-banking. Hence, medium-sized banks and start-ups have an important role to play on the e-banking front if they can take concrete measures quickly and effectively.

E-banking has unique characteristics that may increase an institution's overall risk profile and the level of risks associated with traditional financial services, particularly strategic, operational, legal, and reputation risks. These unique e-banking characteristics include:

- Speed of technological change,
- Changing customer expectations,
- Increased visibility of publicly accessible networks (e.g., the Internet),
- Less face-to-face interaction with financial institution customers,
- Need to integrate e-banking with the institution's legacy computer systems,
- Dependence on third parties for necessary technical expertise,
- Proliferation of threats and vulnerabilities in publicly accessible networks.

Management should review each of the processes discussed in this section to adapt and expand the institution's risk management practices as necessary to address the risks posed by e-banking activities.

2. E-banking strategy

Financial institution management should choose the level of e-banking services provided to various customer segments based on customer needs and the institution's risk assessment considerations. Institutions should reach this decision through a board-approved, e-banking strategy that considers factors such as customer demand, competition, expertise, implementation expense, maintenance costs, and capital support. Some institutions may choose not to provide e-banking services or to limit e-banking services to an informational website. Financial institutions should periodically re-evaluate this decision to ensure it remains appropriate for the institution's overall business strategy. Institutions may define success in many ways including growth in market share, expanding customer relationships, expense reduction, or new revenue generation. If the financial institution determines that a transactional website is appropriate, the next decision is the range of products and services to make available electronically to its customers. To deliver those products and services, the financial institution may have more than one website or multiple pages within a website for various business lines.

3. Cost-benefit analysis and risk assessment

Financial institutions should base any decision to implement e-banking products and services on a thorough analysis of the costs and benefits associated with such action. Some of the reasons institutions offer e-banking services include:

- Lower operating costs,
- Greater geographic diversification,
- Improved or sustained competitive position,
- Increased customer demand for services,
- New revenue opportunities.

The individuals conducting the cost-benefit analysis should clearly understand the risks associated with e-banking so that cost considerations fully incorporate

appropriate risk mitigation controls. Without such expertise, the cost-benefit analysis will most likely underestimate the time and resources needed to properly oversee e-banking activities, particularly the level of technical expertise needed to provide competent oversight of in-house or outsourced activities. In addition to the obvious costs for personnel, hardware, software, and communications, the analysis should also consider:

- Changes to the institution's policies, procedures, and practices;
- The impact on processing controls for legacy systems;
- The appropriate networking architecture, security expertise, and software tools to maintain system availability and to protect and respond to unauthorized access attempts;
- The skilled staff necessary to support and market e-banking services during expanded hours and over a wider geographic area, including possible expanded market and cross-border activity;
- The additional expertise needed to oversee e-banking vendors or technology service providers;
- The higher level of legal audit expertise needed to support technology-dependent services;
- Monitoring e-banking security, usage, and profitability and to measure the success of the institution's e-banking strategy;
- Cost of insurance coverage for e-banking activities;
- Potential revenues under different pricing scenarios;
- Potential losses due to fraud;
- Opportunity costs associated with allocating capital to e-banking efforts.

4. Monitoring and accountability

Once an institution implements its e-banking strategy, the board and management should periodically evaluate the strategy's effectiveness. A key aspect of such an evaluation is the comparison of actual e-banking acceptance and performance to the institution's goals and expectations. Some items that the institution might use to monitor the success and cost effectiveness of its e-banking strategy include:

- Revenue generated,
- Website availability percentages,
- Customer service volumes,
- Number of customers actively using e-banking services,
- Percentage of accounts signed up for e-banking services,
- The number and cost per item of bill payments generated.

Without clearly defined and measurable goals, management will be unable to determine if e-banking services are meeting the customers' needs as well as the institution's growth and profitability expectations.

In evaluating the effectiveness of the institution's e-banking strategy, the board should also consider whether appropriate policies and procedures are in effect and whether risks are properly controlled. Unless the initial strategy establishes clear accountability for the development of policies and controls, the board will be unable to determine where and why breakdowns in the risk control process occurred.

5. Audit

An important component of monitoring is an appropriate independent audit function. Financial institutions offering e-banking products and services should expand their audit coverage commensurate with the increased complexity and risks inherent in e-banking activities. Financial institutions offering e-banking services should ensure the audit program expands to include:

- Scope and coverage, including the entire e-banking process as applicable (i.e., network configuration and security, interfaces to legacy systems, regulatory compliance, internal controls, and support activities performed by third-party providers);
- Personnel with sufficient technical expertise to evaluate security threats and controls in an open network (i.e., the Internet); and
- Independent individuals or companies conducting the audits without conflicting e-banking or network security roles.

6. Security measures

When financial institutions introduce e-banking or related support services, management must re-assess the impact to customer information under the existing regulations. It is necessary that financial institution to:

- Ensure the security and confidentiality of customer information;
- Protect against any anticipated threats or hazards to the security or integrity of such information;
- Protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.
- There are outlined specific measures institutions should consider in implementing a security program. These measures include:
 - Identifying and assessing the risks that may threaten consumer information;
 - Developing a written plan containing policies and procedures to manage and control these risks;
 - Implementing and testing the plan;
 - Adjusting the plan on a continuing basis to account for changes in technology, the sensitivity of customer information, and internal or external threats to information security.

There are also outlined the responsibilities of management to oversee the protection of customer information including the security of customer information maintained or processed by service providers.

7. Key issues in Romania for internet banking

In Romania, a significant number (23) of banks are providing e-banking services, phone banking, electronic banking, internet banking, mobile banking. Still, the number of users is very small if we compare it with the ones in the developed countries. In Romania, at the end of 2004, only 44.538 clients were using the online services according to the Ministry of Communication and Technology, while in Western Europe the number of users reached 57,9 million in the same period, in the USA there were 22,8 million clients and in Japan there were 21,8 million clients. In Romania, the number is growing but in a very low rhythm.

In the Romanian case, there have been identified some specific issues for e-banking adoption:

- Access technology and infrastructure related factors: penetration and skills (PC, Internet), attitude towards technology, security and privacy concerns;
- Sector specific Internet banking factors: trust in banking institutions, banking culture, e-banking culture, Internet banking push;
- Other socio-economic factors: institutional trust, household income level, inflation rate, level of grey economy.

As far as the Romanian e-banking development is concerned, experts agree that many of the innovating solutions will develop in parallel while some others will be faster. Home-banking will lose ground for the internet banking, the last one allowing the users all over the world make transactions through a simple internet connection. Mobile banking can have a larger dynamic than internet-banking on private persons as many of them have invested in mobile communication. The IMM-s will also prefer the internet banking. The e-banking solutions brought by the foreign banks and rapidly embraced by the local ones must be used and developed in parallel so that to offer the clients a variety of solutions [Giurcă Vasilescu, 2005].

8. Conclusions

Thus, the nature of commerce will continue to change with the growing familiarity of the Internet and the World Wide Web. As one would expect, payment systems have been evolving to meet the changing needs of buyers and sellers. New payment instruments are being created to expand the reach of payment infrastructure that has been in place for decades; current systems are being reengineered at the fringe; and fundamentally, new payment systems are being developed as well.

Price level on the e-banking and e-commerce market is lower than prices on traditional banking market. Thus, it is natural to stress that the differential in the prices charged for some products and services on the Internet would be smaller than the price differentials on the conventional banking market. So, the information technology makes it more difficult for central banks to accurately understand price conditions, which is an important basis for making monetary policy decisions.

Central banks generally use short-term interest rates to influence borrowing costs – and thus the real economy. While the e-banking and e-commerce takes a stronger position, coupled with price flexibility, this will finally affect even the decision of monetary policy, meaning that the influence of the monetary policy on prices could even weaken.

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THE TAX POLICY AND ITS IMPACT ON LABOUR MARKET IN SLOVAKIA

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Abstract: The global financial crisis has manifest unfavorably also in Slovakia namely in economic growth decline and in the increase unemployment. The labor market is depressed by excess labor supply over labor demand. Under the impression of global crisis the Slovak republic, as well as the other states, takes in arrangements for reduction its impacts on economy and on entrepreneurs and citizens. Received measures of labor market policy against crisis should affect labor demand, i.e. willingness to employ and incentive to find a job. Tax policy measures against crisis should support low consumption through lowering tax burden of income and improvement business environment.

JEL classification: H22, H24, H30

Key words: tax policy, labor market, unemployment, tax stabilization function, employment policy, employee premium

Introduction

Taxes, tax policy and its measures may significantly influence the macroeconomic and microeconomic decisions in economy. Pattern and measures of tax policy we can educe from applying economic policy. Aims of state economic policy are specified too broadly and they focus on effectiveness strengthening of market mechanism, on reduction of income and property inequality as well as strengthening of internal and external stability of state.

Many countries have implemented the tax reforms of tax systems at the end of 20th century till today in area of revenue tax. One of aims of these reforms was to create environment that support the incentive to work and incentive to employ. It appears from this that tax policy affect the main economic agent of labor market and would help to increase employment and economic growth, especially during the global crisis.

The stabilization function of taxes

Taxes have different functions [6]. The most important function, from article point of view, is stabilization function of taxes. Generally stabilization function is related with idea trend in 1930s – Keynesian theory. Keynesian economists point out active role of state⁴ as well as stabilization function of public finance linked with

⁴ State stabilizes output over the business cycle, primarily increase aggregate demand. The emphasis is put on employment policy that should guarantee the jobs, wages, source of income and thereby demand and assumption of equilibrium.

cyclically balance budget.

Entry of Slovak republic to European monetary union has changed the state activities in active fiscal policy. Built - in stabilizers and discrete measures is coming in on front. They are able to affect demand side of economy, counteract the stagnation and unemployment. Taxes play an important role. They contribute for reduction of business cycle fluctuations and in the long-term they affect favorable economic growth.

Progressive income tax, as built – in stabilizers, in swing period causes the higher taxation of high income level whereby demand of private sector does not rise in proportion to GDP [5]. Taxable income declines in recession but aggregate demand for goods, primarily low-income groups, soars faster. There is delimited effect of this stabilizer in economy by implementation the proportional tax rate in the Slovak republic. Moreover this proportional tax rate could act as stability factor.

Stability taxes are those [2] which are elastic in respect of GDP. Stabilization function of every tax depends on two factors:

- 1) Relationship between elasticity of tax and tax base.
- 2) Relationship between elasticity of tax base and GDP.

Discrete measures could be focused on changes in the tax rates or changes in expenditures structure of budget as well as in amount of individual items of budget. By discrete measures state can regulate incomes that have impact on effective demand. Higher effective demand has motivative impact on business sphere and investments. Utilization of shown measures is conditional by stability of public finance.

The global economic crisis has incurred decrease demand for goods and services and decrease economic growth. From point of view Keynesian theory to stimulate economic growth is effective to use public expenditures at the expense of tax decreasing – consumption more rises at employment growth of low-income groups than at tax burden decline because of assumption that higher income groups more save after tax burden decline then really consume. Lower income groups consume all disposal income.

The impact of global crisis on labor market in Slovakia

The current evolution of world economy is characterized by rapid progressing globalization of trading exchange which from economic point of view is linked with global market growth and qualitative new global customer [1]. The global market growth and remaining economy cohesion of many countries have manifest unfavorably in global crisis. The global crisis covers the economy as whole but also the individual economic agents.

The first indications of crisis in European Union have real appeared already in 2007 and 2008. Despite of that, member states have not paid sufficient attention to its indications. There were reached the financial problems in bank sector and the global economy of states has begun decelerate.

Rise in labor supply is consequence of the return unemployed people from abroad⁵ and at once and firing by reason of economy measures companies.

⁵ In 2008, the Employment agency, social affairs and family registered 6 609 applicants for a job who had the last job in abroad. Thence 45 % applicants for a job were registered in October to December 2008. The most of applicants for a job have come back in professions helped and unskilled employees, technical and skilled manufacturers, elaborators and repairmen and machine attendance. According to education there were skilled in field of, with basic education,

Reduction in demand of labor has shown in decline of job vacancies. Multinational corporations in Slovakia receive measures against consequences of crises which are following:

- Restructuring of company,
- Remove of operations into better locality within the frame of cost reduction,
- Investing in new technology,
- Use of cheaper components and material.

Financial Policy Institute under the Ministry of Finance of the Slovak Republic worked out actual macroeconomic forecast [8] that comes to shining economic growth slowdown in 2009. Despite it Slovak economy will grow the quickest rate in European Union. Employment growth will change into decrease about 0.4 per cent in 2009. Prognosis of unemployment rate has risen but after 2009 there is expected return to trend of unemployment.

The unemployment decreased from 18.8 per cent to 11.1 per cent in 2000 - 2007 in Slovakia. Even though the problems of labor market on the present are: unemployment of low-skill persons, long-term unemployment, rigidity of labor market and high tax and social security burden of labor. It is insufficient an efficiency of educational system and weak adaptation to requirements of labor market. The skills workers are more productive, creative, exerting the new technology, adaptive, more simply receive new skills and have bigger survey about overall economic and trade conditions. Educated people are less advised of state financial support [9].

Registered unemployment in Slovakia increased from 7.51 per cent in October to 8.39 per cent in December 2008, in January 2009 was 9 per cent. There were created more than 15 000 jobs by active policy of labor market in 2008. Despite of unemployment growth at the end of 2008 there was employment growth in compare with the same period of the 2007. The employment rose about 2.2 per cent [12]. During the crisis the new jobs have to create according to regional requirements and employers requirements on skills [3].

Taking into account that consequences of crisis on labor market are related to entrepreneurs oriented on export, it would convenient make measures focused on certain problem area and would not implement general measures.

Table no. 1 Measure on reducing incidence of global crisis on labor market

Suggested measures in general	
<i>Slovakia</i>	
Expenditures side of budget	Economy measure at the side of public expenditures, paying employee's and employer's social security contributions, employee subsidy at creation new job, simplification of foundation the social business
Revenue side of budget	Reduction of tax rate, tax and social security holiday for beginning self-employed person, increase tax allowance
<i>The Czech Republic</i>	
Revenue side	VAT reduction, selectively VAT reduction of recycle goods,

with upper secondary education. The firing is not related to marked number of large employers but bigger number of smaller employers who trade with investors, large employers, carriers etc. (MPSVR SR, 2009).

of budget	strengthening credit restrictions of Czech export bank, tax-relief and reduction of employers social security contributions, improvement accessibility to loans
<i>Hungary</i>	
Revenue side of budget	Reduction of individual income tax, reduction of employers social security contributions, cancellation of additional 4 per cent tax towards entrepreneurs and citizen with high incomes, VAT growth, implementation the property tax for wealthy people, cancellation chosen tax-relief, reduction of social expenditures
<i>Poland</i>	
Expenditures side of budget	Economy measure at the side of public expenditures not at the expense of retired pay and public health, increase of security at credit market, support of investment

Source: own elaboration

Revenue side of budget measures should give to economy necessary impulse that should express by reduction consequences of global financial crisis but should express by temporary deficit increase of public finance. The measures appear to be favorable for rising of foreign demand and for holding of production also by means of raising of domestic demand. Disadvantage of these measures is their time delay, i.e. do not express immediately.

The Government of Slovakia has implemented following measures through revenue side of budget primarily through tax policy:

- Measures in tax area to support the employees with low and average income.
- Measures in tax area to support the small and medium entrepreneurs.
- Lowering administrative burden of entrepreneurs.

Expenditures side of budget measures presents interrogating impulse for economy. It concerned expansionary macroeconomic policy that work countercyclical. To reduce unemployment growth it should help active policy of labor market and employment services because they influence supply of labor and labor demand. The government of Slovakia has implemented following chosen measures to reduction unemployment growth through expenditures side of budget:

- Active labor market policy and employment services that influence labor supply and labor demand.
- Saving measures not at the expense of health and retirement.
- Support the motivation at search and receiving for a job.
- Subsidy of employer's social security contribution if he preserves job also in case of operation problems and provides refund of wages in an amount of 60 per cent to employee. The subsidy is provided during 60 days in 2009.
- Creating and holding social business.
- Intensify the inter-regional work mobility (increase the subsidy on job movement extramural or outside region of permanent address).
- Support manufacturers and sellers of domestic agriculture products.
- Create the better conditions for self-employed gainful activities etc.

The global crisis and its impact on tax policy

Not only member states but also the European Union as a whole has become to talk about „European stimulate packet“, that could start the economy of individual states. Individual member states do not have the same opinion on uniform practices of European Union. Neither uniform practices in area of taxes did not find favorable response.

For example the European Union has proposed full-area reduction in basic rate of VAT to a bottom level (i.e. 15 per cent), which is specified by European Union Directive⁶. This proposal was not acceptable in many member states primarily by reason of public finance stability.

There are ideas that should reduce proportional tax rate for natural person and legal entities from 19 per cent to 16 per cent. This change could apply for all groups of people and for entrepreneurs whereby would decrease the tax burden and support the economic growth. By mentioned above would improve the business environment and competitiveness of economy at obtaining foreign investments. These measures should have longer-range character.

Government of Slovakia has adopted the measures on reduction the global crisis impacts. Measures are focused on lowering tax burden and simplification the business environment.

The third packet of measures includes the specific measures that are focused on low income groups – natural persons who have the greatest propensity to consume. These persons have income around minimum wage (the minimum wage is 295.43 € in 2009) and they do not pay tax on wages. The lowering the tax burden of these persons was made by rising tax allowance and utilizing employee premium that stimulates in the long term employed persons.

The chosen tax arrangements of Slovak government to reduce consequences of global crisis

The Government of Slovakia received measures in area of taxes to reduction consequences of global crisis on period of two years. Measures are related to period of taxation 2009 and 2010 [4].

Tax allowance with respect to the taxable party

Tax allowance educe from the living wages for tax purposes valid 1st January given year. Living wages is in an amount 178.92 € at 1. 1. 2009 and will not change during the period of taxation for tax purposes. The measure against crisis consists in rising the multiple that is changed from 19.2 multiple to 22.5 multiple of living wages. Annual amount of tax allowance has changed from 3 435.27 € to 4 025.70 €.

Table no. 2 Tax allowance with respect to the taxable party

	Before changing	After changing (since 1. 1. 2009)
Living wages multiple	19.2	22.5
Amount of tax allowance with respect to the taxable party	3 435.27 €	4 025.70 €

Source: own elaboration

Increase of the tax allowance will positive influence primarily on disposal income people with lower incomes. On the contrary, people with higher incomes experience smaller size of this change or they will not experience this change at all.

Table no. 3 Impact of an increase of tax allowance on net wage (in €/month)

Gross wage	295,50	315,34	331,94	497,91	1374,23	1560,11	1659,7	1719,44	1991,64	over 2955
Net wage - increase	15,10	11,82	9,33	9,33	9,33	6,24	2,09	- 0,50	- 0,50	0

Source: Ministry of Finance of the Slovak Republic (www.finance.gov.sk) and own elaboration

The modification of tax base decline in applying tax allowance

To the benefit of taxable party there is a change of reduction in limit for application tax allowance. The limit for application of tax allowance is declined from 100 times the living wages to 86 times living wages valid to 1st January given year.

Table no. 4 Reduction in limit for application tax allowance in 2009 at living wages 178.92 €

	Per year	Per month
100 times the living wages	17 892 €	1 491 €
86 times the living wages	15 387,12 €	1 282,26 €

Source: own elaboration

The full amount of tax allowance can use only tax-payer whose yearly tax base is equal or lower than 86 times the living wages (i. e. up 15 387.12 €). Progressiveness of taxation remains at tax-payers who have the tax base before application tax allowance higher than given limit of the living wages. At these tax-payers there is wind-down of tax allowance or there is no application of tax allowance.

The tax base limit by which begin reduction of tax allowance decreases from 1 491 € to 1 282 € in 2009.

The employee premium

Employee premium is focused on lowering tax burden of people with low income as well as employment support.⁷ Employee premium is subsidy or cash transfer from government. It increases the net income of employer at annual tax account. It is given only for employers who receive earned income during minimal 6 months. The earned income should be in an amount of 6 times the minimum wage. Employee premium declines with wage increase.

The employee premium could use in the top amount those employees who after applying new alterations have zero tax liability (wage from 148 € to 295 €).

The employee premium linearly decreases with an increase of income. Employee premium pays only to a limit by which starts pays tax in new (adjusted) system (from 388 €).

⁶ Directive No. 92/77/EHS on the common VAT system.

⁷ Employee premium will use at the end of taxation period, for the first time in 2009 at tax return which will register in March 2010.

Table no. 5 Employee premium in 2009

Wage in €	Employee premium/month/€	Employee premium/year/€
Wage by the middle of minimum wage (up 147, 75) ⁸	0	0
Wage from the middle of minimum wage to minimum wage (147,75-295,50)	15.09	181.08
From minimum wage, i.e. from 295,50 to 331	9.33	111.96
Wage from 331 to 388 ⁹	9.33 to 0	111.96 to 0
Wage from 388 and more ¹⁰	0	0

Source: The Ministry of Finance of the Slovak Republic (www.finance.gov.sk) and own elaboration

It stands to reason that noted above tax measures mean cut in revenues of state budget as well as of local budgets. Self-government will be able to move resources from capital investments as well as resources from previous years on common working in period of temporary tax measures. They do not have to keep balanced budget.

The additional chosen measures are focused on simplification business – e.g. simplification of evidence declaration drives motor vehicles for entrepreneurs – they will be able to apply 80 per cent from spending for fuelling to tax purposes. A small entrepreneur with sale up to 170 000 € do not have to conduct accounting but he has to have simplified tax evidence. Self-employed person is able to use simplified evidence if he does not employ any employees. Increase limit for amortization of individual types of property. The limit for tangible property is changed from 996 Euro to 1 700 Euro and limit for intangible property is changed from 1 660 Euro to 2 400 Euro. By shortening time for tax return at VAT from 60 days to 30 days entrepreneurs could faster receive resources.

Conclusion

The consistent decreasing of unemployment in Slovakia in 2000 - 2007 has stopped in consequence of global crisis. The most problem of labor market on the present is the increasing of unemployment. The government of Slovakia has taken the measures against crisis in area of labor market policy as well as in area of tax policy. These measures are focused on income support of employers and improvement the business environment.

Measures on reduction in public expenditures cause a concern of individual Ministry primarily of ministers. Reduction of expenditures could cause additional muffling of production and creating of unemployed persons. These measures should have been consistent with creating of favorable conditions for business environment.

⁸ These employees do not entitle to payout employee premium and do not have any tax liability.

⁹ Employee premium is in amount of 9.33 € to zero. Employees derive profit from tax allowance that can not be applied and they receive so called negative income tax.

¹⁰ Income increase is only by reason of increase tax allowance (what is approximately 9.33 € per month). These employees do not receive employee premium.

Each member state of the European Union takes their “packet of measures” on elimination of global crisis impacts. It is important that each state inclusive Slovakia looks for the effective measures on support demand not only in tax area. Worsening situation leads to limiting of consumption and to rise of savings. For example in Slovakia willingness of people to save has several fold increased in compare with previous year. It appears from this that even without increased of unemployment and despite of several positive tax incentives as well as another state measures may come to reduction of peoples’ expenditures.

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THE POLITICS OF FINANCIAL AUDITING

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Abstract: Accounting is an important factor in recent transformations in the management of economic life in Romania. A marked convergence between private and public sector philosophies of administration has occurred and accounting has given operational substance to ideals of „efficiency”, „value for money”, „competitiveness” and „accountability”. Accounting increasingly shapes the language of policy and has become as much an indisputable benchmark of rational economic conduct as a substantive practice. However, to suggest that accountants have been integral to the new financial performance culture in which we now seem to live is also to reveal an irony. Two of the professional tasks which are closely associated with the image of these champions of performance are currently undergoing a crisis of „performativity” themselves. Financial accounting and audit, practices through which the wider dissemination of a „financial rationality” has occurred, are being questioned as never before. In this essay we focus upon the varied processes of negotiation, debate and accusation which constitute a „politics of financial auditing”.

JEL classification: M41, M42

Key words: accounting, financial audit, financial rationality.

When innocent parties lose assets because of fraud or the economic collapse of apparently healthy companies, institutional processes of „blame allocation” are set in motion. These processes are competitive. Litigation may be one particular and specialized method of allocating blame but press comment, internal inquiries and a host of other deliberative mechanisms are equally significant. Within these various settings the allocation of blame is not merely a question of finding scapegoats but also has much to do with establishing descriptions or „problematizations” of the event which favor certain allocations of responsibility, and hence certain regulatory responses, over others.

The political nature of regulatory blame allocation is revealed particularly acutely where the public criteria of success and failure for regulatory practices are imprecise. In such cases single events, have provoked generalized forms of inquiry about the nature of trust entities, banking supervision structures and forms of corporate governance. In the case of financial audit there is currently widespread doubt about what audits are for and, by implication, about the criteria for determining the difference between good and bad auditing. Accordingly, the politics of audit, though it may originate in particular events, also stimulates general concerns; it is as much about *what* an audit is as *how* it has functioned in any particular instance.

In recent years it has become popular to problematise financial audit in terms of an „expectations gap”, namely, a discrepancy between the demands made by user publics

on the audit function and practitioners' views of its role and capabilities. However, the imagery of the „gap”—as if there were well-defined points which needed to be brought closer together in some way—is too simple and static. Audit is always subject to such gaps since the circumstances under which it may be judged to succeed or fail are periodically subject to negotiation. The coherence of any practice depends largely upon a consensus about these circumstances but this is not to say that professional tasks must be fully transparent to their consuming publics; far from it. Rather, public conceptions of those tasks in the abstract must be sufficiently stable to tolerate particular deviations. When this consensus is disturbed by events such as corporate collapse, the institutional path of the disturbance corresponds to a political process which aims at a new form of consensus for the meaning of the practice, particularly its general criteria of success and failure. Furthermore, *who* decides and determines the public meaning of these criteria is as important as *what* is decided, especially where such criteria continue to be expressed in imprecise terms which require specialist interpretation.

In the next section, we describe the official image of auditing as a practice which is generally successful. This is followed by a consideration of the nature of financial reporting. Problems of financial audit and financial reporting are often confused in the public imagination, and the politics of audit is at its most intense where companies fail in a substantive economic sense and auditors are blamed for approving financial statements which did not give warning of this outcome. We argue that, intensity notwithstanding, the forms of response and negotiation in these cases are cosmetic in an important sense; they favor regulatory responses to critical events which *particularize*, *proceduralise* and *institutionalize*. Such responses systematically ignore the „cost-assurance” relationship which lies at the very heart of the audit process.

1. Representing the mission of audit

External financial audits have been officially defined as an „independent examination of and expression of opinion on, the financial statements of an enterprise”. The audit adds credibility to these statements. All companies are at present required by law to produce such statements, commonly called accounts, for their owners (shareholders). In this way it is thought that management is made accountable to shareholders and that the periodic production of accounts enables shareholders to make rational investment decisions.

In law it is the directors who are responsible for the preparation of financial statements. External financial auditors act on behalf of, and report to, shareholders (even though they commonly regard management as the „client”) to ensure that the accounts given by management are not fundamentally misleading. In Romania, the auditor must give an *opinion* on whether the accounts give a *true and fair* view. The auditor collects evidence as a basis for this opinion, a process which, over the years, has been regulated by professional statements of best practice. When financial statements are „technically defective”, in the sense of failing to „represent” the economic condition of a company, auditors are required to act in one of a number of institutionally prescribed ways: requiring accounts to be amended; expressing a „qualified” public opinion on the accounts; in certain circumstances reporting directly to a third party such as a regulator.

Financial accounting and the representation of economic reality

The official representation of the mission of financial audit given in the previous section can be disturbed in a number of ways. Given that the perceived success of the audit process is heavily dependent upon the capacity of the financial statements to reflect the economic condition of the company, then the politics of financial audit cannot easily

be disentangled from processes of negotiating and criticizing the role of accounts. An abiding image of financial reporting is that it is the neutral representation of the financial affairs of an entity which provides information to a potentially diverse body of interested parties, principally investing publics. In Romania the official rules of accounting assist and fine tune this representational function. Sometimes the rules are shown to be inadequate and must be reformed. However, the principal idea of accounting as a technology which assists in the operation of capital markets is an enduring one. To the extent that audit enhances the credibility of financial accounting, then it also contributes to the efficiency of the markets for financial capital. On this view, financial accounting is an „apolitical” practice with merely an instrumental role in assisting the rational decision-making of investors.

However, this official image is difficult to sustain for a number of reasons. Firstly, it has long been recognized that the standard-setting process for financial reporting is political in the sense of being subject to interested pressures for particular outcomes. In this sense the precise form of financial accounting is perceived as having „economic consequences” for certain parties who will then be disposed to attempt to influence the standard-setting process.

Secondly, the representational aspirations of accounting are undermined by „creative” accounting practices which exploit the indeterminacies of official rules to reflect the performance of the enterprise in a desired manner. Some critics have argued that accounts can be whatever one wishes. Indeed, it is in the nature of rules that they cannot be written to control entirely the conditions under which they are applied and certain accounting areas, such as the setting of provisions, are difficult to prescribe and lend themselves to forms of „creative compliance”. However, creative accounting in this sense is not simply a by-product of the rule-making process. It is also a function of what auditors will permit.

Auditors, far from being the guardians of economic reality, are perceived to have conspired with management to assist in creative accounting practice.

Thirdly, the representational ideal of financial accounting can be undermined in a much more radical way. It is not just that creative accounting distorts our view of an independent economic reality; accounting practices effectively *constitute* that reality. In the context of management accounting, accounting systems provide a medium through which organizations become „visible” to themselves. That which is newly „visible” can be interpreted not as a representation of an independent reality but as the creation of a new domain of economic facts. Accounting therefore constitutes the economic facts that it purports to represent. The communication of economic „facts” in financial statements is simultaneously their construction *as* facts.

This is not such a strange and philosophical idea as it sounds. Consider recent debates in the UK about whether coal pits are or are not „profitable”. In adversarial contexts such as this, concepts of „cost”, and therefore of profit, are subject to many assumptions and are highly negotiable. In these instances one can say with some plausibility that different „accountings” determine different economic „realities” of the pit. From this point of view there is no single „true” representation of the economic condition of the pit, merely competing ones mediated by particular forms of accounting.

Another example concerns the recent debates about whether valuable but „intangible” brand names should be „assets” on the balance sheet. There can be little doubt that accounting for brands in this way does not merely „represent” them as if they were entirely independent of financial reporting and valuation methods. Brands are

constituted as real in a particular sense by accounting. More generally it can be argued that accounting constitutes a model of social reality. In this sense accounting is contestable not simply in terms of better or worse accounting for a particular class of transactions; preoccupations with creative accounting effectively accept the representative role that accounting has set itself. Rather, accounting provides the dominant medium through which companies make themselves visible both internally and externally. As a highly selective form of receptivity to outside disturbances, traditional financial accounting treats certain effects of corporate activity, such as upon the natural environment, as non-facts. Relative to the accounting knowledge system, these effects are „unreal” and the present trend for environmental disclosures in annual reports does nothing to disturb the dominant logic of financial accounting representation of corporate activity. This logic is reinforced and made legitimate by financial audit.

Overall, the sense in which the „auditee” company succeeds or fails (in the role of auditee) depends upon the definition of its performance which is relevant to the audit process. To the extent that financial reporting is far from being a simple representative practice then such definitions are far from being stable. This legalistic definition sits uneasily with emerging preoccupations with corporate governance which emphasize a broader set of stakeholders in corporate activity. In other words, financial reporting is now under pressure to develop in new ways at a time when its traditional role is uncertain. All of which makes the financial auditors’ role problematic.

2. Negotiating audit failure

Audit can be represented as successful where the auditor has reported particular financial statement failure by „qualifying” his audit report publicly or, less publicly, by reporting to a relevant third party such as a regulator. However, success in both these cases can be contested. For example, one company had previously received a qualified audit report on the grounds that the auditors had doubts about whether it could continue as a going concern. While this information would have been communicated to shareholders in the accounts, and was „publicly” known in the sense that the qualified audit report was available for public inspection, it was not made evident to the customers who subsequently lost money.

Clearly, much hangs in this instance on what it is „reasonable” to expect of the audit function and the litigation against auditors Ernst & Young and Price Waterhouse may, if it ever arrives in court, have something to say on this. There is a long history of preoccupations with the financial auditor’s role in relation to the discovery of material fraud and currently there are some indications that they may accept an extension of their responsibilities. This shows that what is „reasonable” may change over time, as reflected in the development of official audit guidance. Furthermore, public events may dilute the ability of auditors to retain professional discretion in determining the content of „reasonable” practice. In this sense the politics of audit is as much about *who* is to control the definition of „reasonable” practice as it is about the content of that definition.

For many years auditors have been concerned that they have been unduly burdened with the risk of financial statement failure. In response they have emphasized directors’ responsibilities for providing systems of internal control and have lobbied unsuccessfully for recognition of this fact in company law and in the tort of negligence. More recently this campaign for „risk sharing” has been conducted in terms of a new agenda for corporate governance in which the role of the financial auditor is articulated as but one part of the total control environment of the corporation. This reinforces the

traditional defense that it is unreasonable to blame auditors when errors and irregularities have their source in corrupt management practice.

There are certain dangers for auditors in pushing this idea of risk-sharing too far. It is not unreasonable to argue that the manifest economic success of firms of financial auditors has in fact been aided and not hindered by ill-defined conceptions of their role. High expectations generate high fees. In seeking to „spread risk” auditors may devalue their own product. In addition to pressures on audit fees, there is also evidence that the recent financial scandals have provided a platform for „professionalisation” initiatives by *internal* auditors, who are employees of organizations, in making claims upon the territory of corporate governance. Indeed, some audit fee reductions indicate a level of corporate substitution between the internal and external audit function. It seems that auditors cannot limit expectations about their role without also limiting their capacity to earn high fees.

Important as the negotiation of „reasonable” audit practice is, the politics of financial auditing is also characterized by a certain „cosmetics” of response. In the wake of financial scandals in which the audit function is implicated, audit must be seen to respond. The restoration of a consensus about the mission of audit often takes the form of new practice recommendations by the auditing authorities. Hence, an important product of the politics of audit is the body of codified procedure which is produced in the wake of perceived public failure. One might even suggest that the *production* of discussion documents and audit guidance in the wake of such scandals is as important as what they say; being seen to be serious about reform is an important political resource. But, in these cases, audit knowledge is codified and procedural in a manner which also leaves untouched the problematic relation between audit work done (inputs) and assurance given (output). In our view, the politics of audit is as much about leaving this core problem alone as it is in promoting better practice. It is this issue to which we now turn.

3. The politics of audit

So far we have considered three possible representations of the success or failure of audit practice. Firstly we presented the official story of audit success coupled with financial statement success. Secondly we considered the sense in which financial statements might be said to succeed or fail. Thirdly we considered the negotiation of audit failure in the context of financial statement failure. These discussions correspond to boxes 1, 2 and 3 respectively in Figure 1. The latter describes the „logical space” within which the politics of audit, the market for interpretations of its efficacy, occurs. Figure 1 also enables an analytical distinction to be made between two issues which are often confused; auditee and auditor failure. The difference between the two *rows* in Figure 1 concerns the performance criteria of companies in their capacity as auditees. we have considered in some detail the continuing debates about the adequacy of financial accounting as a reflection of corporate activity. The difference between two *columns* concerns the success or failure of the audit process itself and we have discussed the problems of negotiating „reasonable” audit practice in the contested territory between boxes 2 and 3.

Table no. 1 The logical space of the politics of financial audit

		AUDITOR FAILURE	
		No	Yes
AUDITEE FAILURE	No	1	4
	Yes	2	3

The idea of a „politics of financial audit” refers to the institutional settings in which the four possible representations of the audit process in Figure 1 can be negotiated. This negotiation involves the need to settle the criteria of success and failure *in general* for both auditee and auditor. However, it is also apparent from the figure that we have not addressed the possibility that audits may „fail” and yet not be seen to fail because the financial statements are not technically defective. This is an intriguing possibility because public knowledge of the efficacy of the audit process is usually mediated by the perceived integrity of the financial statements. By the same token, financial statement non-failure is often regarded as evidence of audit success. Figure 1 suggests that both these inferences are misleading; box 4 represents the logical possibility that audits can fail but are not publicly seen to do so. Are there any institutional processes which correspond to this possibility?

Regulating audit knowledge

A distinction between the „ethical” and „technical” failure of audit practice can be drawn. Ethical failure can be said to occur where auditors fail to report reportable matters which have come to their attention. This form of failure is closely associated with long-standing concerns about the independence of auditors. The audit profession has resolutely resisted attempts to change existing institutional arrangements for audit, such as by rotating audit firms and prohibiting the provision of non-audit services. However, over time, concessions have been made with the intention of improving the image of the independence of audit. The audit industry can no longer appeal to the ethical „attitude of mind” of its practitioners, a rhetoric which is increasingly hollow in the face of a more commercial way of talking. However, by comparison with the considerable level of commentary on the question of ethical failure, i.e. non-independence, there has been little „politicization” of „technical” failure until recently.

Public institutional mechanisms to question the fundamental basis of the audit product, i.e. the relationship which is presumed to exist between work done and levels of assurance available, do not exist. Other than in very limited circumstances where statistical technologies are available, this fundamental relationship is largely a matter for professional hunch.

From this point of view an important „non-politics” of financial audit becomes apparent and defines a set of issues which even critics of auditing are unable or unwilling to face. Visible preoccupations with procedure, the codification of incremental and very specialized audit routines, and proposals for new institutional structures create a certain specialized density around the audit function such that a more radical and systematic conception of audit failure cannot become a public issue. From such a radical point of view the weakness of the knowledge base of audit and the problematic nature of the audit product would be apparent.

The „non-politics” of audit failure must not be understood in conspiratorial terms. It is primarily a function of the regulatory system within which audit operates. A great deal of financial regulation *presupposes* the efficacy of audit. Without audit as the possibility of some form of *ex post* inspection, financial regulation would appear unenforceable. To preserve the mission of financial regulation, the politics of regulatory blame has an inherent tendency to *particularize* audit failure and to *proceduralise* in its wake. In addition, regulatory response is heavily weighted towards the creation of new *institutional* structures, such as the suggestions for creating an „audit panel” or a „general audit council”. The result of these three tendencies is what we call, uncharitably perhaps, a „cosmetics of response”. New licensing rules for auditors, ethical codes,

reporting functions and duties, official routines and new regulatory bodies for audit reconstitute the mission of financial audit in the wake of scandal. Yet these elaborations also prevent a more fundamental problematisation of the audit product and it is to this that we turn in conclusion.

4. The future of financial audit

Today we hear much of environmental audit, safety audit, medical audit, academic audit and many others beside. This institutionalized belief in the productive benefits of verificatory activity is such that one might describe today as an „audit society”. Audit has become the condition of the functioning of a distinctive style of regulation, and to be audited is to be made an accountable and thereby legitimate economic agent. It was suggested above that because audit is a *presupposition* of regulatory programmes, a radical problematisation of audit practice is not a regulatory option. Hence, the politics of audit functions as much to circumscribe debate as to allocate blame within the system of financial regulation. Audit failure paradoxically but inevitably leads to a reintensification of audit. At the point where systemic doubts about audit might be possible, the response is to have more of it.

We propose additions to the existing reporting responsibilities of auditors; respectively, to shareholders on the compliance of the company with the code of best corporate practice, and to wider interest groups on a range of issues. In both these cases the likely effect is to amplify expectations about the audit function. Furthermore, we endorse institutional innovations such as enhanced audit committees, audit panels and shareholder audit representative groups.

Whether or not these are implemented is less important than the style of regulatory response which they symbolize. We believe in the efficacy of audit and seek to extend it in new directions. Initial conceptions of the expectations gap were premised upon public ignorance of audit which could only be remedied by changing the wording of the audit report. Now it is the scope of audit which must be extended to meet public expectations. However, to reinterpret the „expectations gap” in these terms also conceals real doubts and confusion about the level of assurance which financial audit provides.

It may be that the desire is not for *more* audits of *new* corporate statements but for clarification of the audit product and the nature of the attest function which constitutes it.

It is conventional practitioner wisdom that higher levels of assurance are more costly and yet this assurance-cost function is, to say the least, difficult to specify empirically. It is also part of the conventional history of audit that it has evolved in the direction of greater efficiency in the sense of the development of techniques which give a greater level of assurance for any given level of cost as compared with their predecessors. These „stories of audit” are reinforced by a growing regulatory dependence on audit, a dependence which ensures that the idea of systematic audit failure cannot become a theme in the politics of audit. Indeed, the politics of audit is concerned to prevent a situation arising where we might be required to think of alternative institutional mechanisms to audit. In the „audit society” these alternatives are literally unthinkable. To conclude, it seems that the politics of financial audit does not merely give voice to the doubts of aggrieved parties. It also channels and translates these doubts into thinkable and therefore workable regulatory solutions; disciplinary action against *particular* individuals, the production of new official *procedures* and the creation of new *institutional* mechanisms.

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GLOBALIZATION AND PERFORMANCES IN BANKING ACTIVITY

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Abstract: Each area is influenced by globalization and the financial markets are not only an exception but these can be considered a real engine of the globalization. It is obvious that we can't talk only about a national market but of a financial market which works at a global level. The present events guide us to another thinking of the features and effects of globalization. The social-economical consequences transmitted by globalization of the economy and advantages or disadvantages of the banking-financial globalization can't be outlined without having a new vision over the dimension and complexity of this present process.

JEL classification: G15, G21, G24, E44, E58

Key words: financial globalization, banks, banking systems, banking performances, financial crisis, competition, bank risks

1. Introduction

Globalization – a process or a phenomenon very much discussed, appreciated by some people, contested by others – represents a reality of whose consequences are felt by each one of us. Information circulates faster and faster, the access to information is easier because of the technological evolution and this makes that the environment in which we live to change continuously. The speed with which information circulates, the level of development of the communication means determines the elimination of the temporal and space barriers from the humans' development. Each area is influenced by this process and the financial markets not only are an exception but these can be considered a real engine of the globalization. It is obvious that we can't talk only about a national market but of a financial market which works at a global level.

Financial globalization doesn't represent a new phenomenon, but the size and speed which this faces it is without any precedent. The connections between states and the interdependence between financial systems are more emphasized than ever.

In our opinion, the effects of financial globalization act on the banking systems aims at:

- ✓ the globalization and the moves associated to this have changed the financial systems, by strengthening the connection between banks and financial markets;
- ✓ the banks have taken advantage of the changes produced by the financial globalization, and they have evolved and adapted their activity to new realities;
- ✓ the developed banks are the main actors of financial globalization;
- ✓ the tanks redefine their activity constantly;

- ✓ the restructuring of the banking system responds to an industrial and financial logistics;
- ✓ the banking regulations are based on an ever stronger coordination between authorities, markets and institutions;
- ✓ the European banks are facing a triple challenge in trying to achieve their performances: efficiency growth, consolidation, internationalization and promotion of a global expansion strategy;

At the level of Central and Eastern Europe the high level of the presence of the western banks and the ever greater integration make the credit offer in this countries become more sensitive to the external economic evolutions. Therefore, the banking systems of these countries are facing some major challenges: collaboration in the area of prudential regulations between the Eastern and Western Europe, the medium-term and long-term sustainability of the expansion of the regional credit, the perspective of adopting the euro.

2. Globalization – challenges and consequences

In the next paragraphs we will identify the main challenges of the financial globalization and the way in which this affects economies.

First of them refers to the low impact of the monetary policy generated by the financial globalization. In the last years, the relation between monetary policy and financial stability was analyzed careful. The financial and monetary stability represents the medium purpose of the state policy.

The financial stability affects positive the prices stability. First of all, promotes an offer of credit and capital flow which are stable and essential for a harmonious expansion of economy. After that, financial stability sustains the mechanisms of transmission of the monetary policy. A financial stable system assures the transmission of the modification of the monetary policy instruments over the market rates. That is the way, the changes in the monetary policy will affect the consumers and companies behavior and obviously the inflation and the economic activity. In addition, the stability of the prices has at its turn a positive influence over the financial stability.

An efficient monetary policy will promote financial stability by eliminating the contradictory signals transmitted by the prices which are associated with the high and volatile inflation. Low and stable inflation offers to population and companies clear indications regarding the modification of the relative prices. As a consequence the allocation of resources will become more efficient. Some specialists have shown that, because of the capital markets integration, the interest rates will become equal in most of the countries, which will lead to the diminution of the central banks' abilities by the countries with low interest rates, thing which creates a dilemma for central authorities: attracting a high flow of foreign investments or the control of inflation.

A second problem is the faster spread of the risks at the global level. Globalization, synonym with economic and financial integration leads to a larger transmission of the conjunctural exchanges, especially of those produced in USA, taking into consideration the important role of the US economy.

Therefore, the USA contribution at the world GDP reaches 20,50%. In the financial plan, this percentage has a higher level, the percentage of the US exchanges towards the global exchanges is 25% in 2007 knowing a descending evolution and in the '90 this percentage was 32,8%. Also, the intensification of the financial relations had as a consequence to the growth of the percentage of the US assets which are hold by the other states. The

percentage of the US assets hold by the countries from European Union increased from 3,1 % from GDP to 14,1% in 2005. Studying the connection between the consequences of the recession from the USA and industrial countries, we notice a close correlation, the diminution of the US GDP lead also to a limitation of the GDP from these countries as we can see in the following table.

Table no. 1 The correlation between US economy and industrial countries

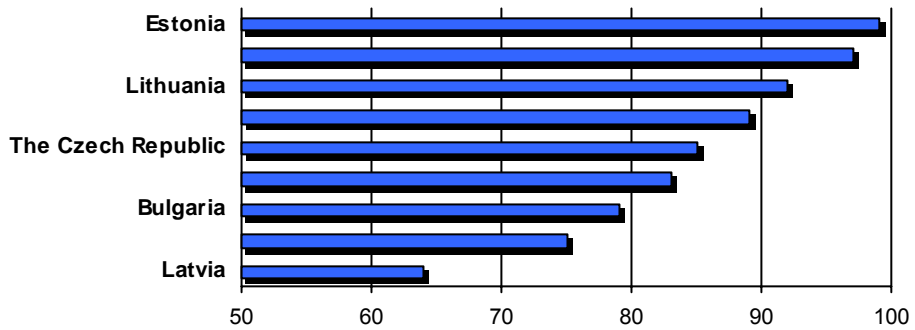
	1974 -1975	1980	1982	1991	2001
United States of America	-6,1	-3,4	- 4,5	-2,1	-2,9
Industrialized countries	-5,4	-1,5	0,4	-1,3	-2,0

Source: International Monetary Fund

The present events guide us to another thinking of the features and effects of globalization. The social-economical consequences transmitted by globalization of the economy and advantages or disadvantages of the banking-financial globalization can't be outlined without having a new vision over the dimension and complexity of this present process which is determined, mainly, by three characteristics.

First of these and probably the most powerful is the financial innovation. The process of innovation which marked the financial markets from the last twenty years lead to the creation with the help of the financial engineering of the derivative products form the stock exchange and outside. These, at their turn, became important instruments for the risk of management are used in an investment purpose by the companies, financial institutions, individual investors. For example, the credits' portfolio of the banks can be transformed into a series of titles with a negotiable value. Those are then sold to financial markets, in packets, with a different risk to certain investors, banks can benefit of new resources and investors of important results. Financial institutions can in this way administrate efficiently the exposure and transmit the risk to those investors which are capable to control it.

A second characteristic is the fact that economies become more open from the financial point of view, especially the economies in the development process. Through its instruments: international trade, financial international flows, direct foreign investments, the globalization creates favorable conditions to expand these flows; financial transactions have on the exchange markets a higher percentage than the international trade; the intensity of the relations between countries was possible thanks to the fast liberation of the commercial system and to the investments in the countries in process of expansion and through the progress of the technologies and other means of telecommunication. In the economies from Central and Eastern Europe the banking assets are hold, mainly by the foreign institutions.



Source: *The Economist, A special report on international banking, Mai 2008.*

Figure no.1 – Banking assets hold by foreign banks (2006)

This fact was determined mainly by internal factors. From those factors we mention the financial freedom and non-regulation which lead to higher investments. The liberation of the capital account, more flexible policies of the exchange rates, the opening of the capital markets were measures which attracted many foreign investments.

The third characteristic is the fortification of the role and importance of the financial institutions, from those we mention: banks, hedging funds, funds of “private equity”. These have a few common features:

- ✓ play an important role in the assurance of the efficiency of the market and offer liquidity to the capital market;
- ✓ use complex strategies for investments;
- ✓ use advanced methods for the administration of the management risk.

These features lead to an improvement of the economic climate in which the financial institutions act, an obvious trend for the emergent economies, but they also created a strong dependence of the health of these economies to the financial conglomerates. These can generate problems regarding the monetary stability thanks to the important role they have for the equilibrium of the financial markets, they raise certain problems concerning the transparency and their role in sustaining the financial stability. In this context, because of the many aspects regarding prudence included in the some field directions (which are addresses to banks, investments societies) weren't stipulate at the level of financial groups, the European Union adopted rules in harmony with other concerning the prudential control of financial holdings in order to limit the risk that their activity to be one that makes unstable the European financial markets and these are: the Directive no. 2002/87/CE known under the name of Financial Conglomerate Directive.

In what concerns the consequences of the financial globalization we will analyze two of the most important. First of all, the globalization increases the efficiency of the financial markets. Due it and to the technological progress the capital had improved. Every new information is rapidly process and incorporated in the assets' price which will lead to a new dimension closer to the proper understanding of the risk. The efficient allocation of the capital represents the ability to place resources in a way that leads to maximum their value. The operational efficiency gained also due to

the globalization because the cost of the finance diminished as a consequence of the competition.

The process of allocation of the capital can be outlined also through the trend which manifests at the global level to concentrate the resources. This trend manifested by increasing the number of banking acquisitions and mergers, even so, in the present the economic conditions aren't so favorable as we see in the fourth graphic. Still, in the future, it says that it will be a reorganization of the banking system and also an increase of the number of acquisitions and mergers as a consequence of the diminution of the financial power of certain financial groups.

Another consequence of the globalization is made up by the fast maturity of the emergent economies. International Monetary Fund predicts for 2007 and 2008 that half of the economic growth, at the global level it will be registered by the emergent economies. The same trend is registered even for the financial conditions of this country.

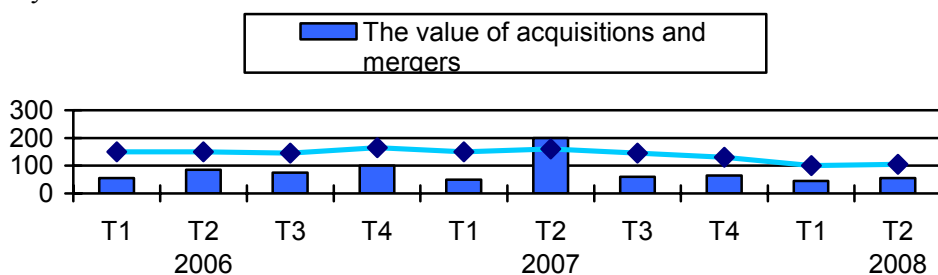


Figure no. 2 The evolution of the banking mergers and acquisitions at global level
 Source: *The Economist, Under the hammer, 10 July 2008*

Table no. 2 The evolution of ROE and ROA at the European level

	2003		2004		2005		2006		2007	
	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA
Austria	7,0	0,3	14,8	0,6	14,8	0,6	16,9	0,7	18,3	0,8
Bulgary	22,7	2,4	20,6	2,1	22,1	2,1	24,4	2,2	25,4	2,5
Czech Republic	23,8	1,2	23,3	1,3	25,2	1,4	22,5	1,2	23,1	1,3
Greece	8,9	0,6	6,4	0,4	15,9	0,9	12,8	0,8	20,1	1,3
Italy	7,4	0,5	9,3	0,6	9,7	0,7	11,5	0,8	-	-
Poland	5,4	0,5	17,1	1,4	21,9	1,6	21,0	1,7	25,6	1,8
Romania	15,6	2,2	18,5	2,4	15,2	1,9	11,7	1,5	11,4	1,3
Serbia	-1,2	-0,3	-5,3	-1,2	6,7	1,1	10,0	1,7	12,8	2,1
Hungary	19,3	1,5	25,3	2,0	24,7	2,0	24,0	1,8	22,9	1,8
European average	11,3	0,5	13,7	0,5	15,0	0,5	16,7	0,6	-	-

Source: *International Monetary Fund, Global Stability Report, April 2008*

3. Globalization and crises

The dynamics of the present crisis of the mortgage credits constitutes a proof of the way in which globalization modifies the reaction of the financial system at shocks.

The worse problem created by the under premium crisis is on the credits' market. The financial crisis spread also into the real economy through the credits for consumers and for enterprises, because the financial institutions are confronted with an acute crisis of liquidities. To avoid an obstruction of the credit market, central

authorities, especially those from the USA have interfered. In fact, it is very well known that the theory of Ben Bernake, according to this loss of banks¹¹ followed by the slow down of the credit rhythm will lead to a moderation of the economical activity and to a diminution of the goods' value which constitutes a mortgage for the credits, creating in this way a negative spiral.

In fact, the solvency ratio of the banking institutions diminished as a consequence of the mortgage credits' crisis.

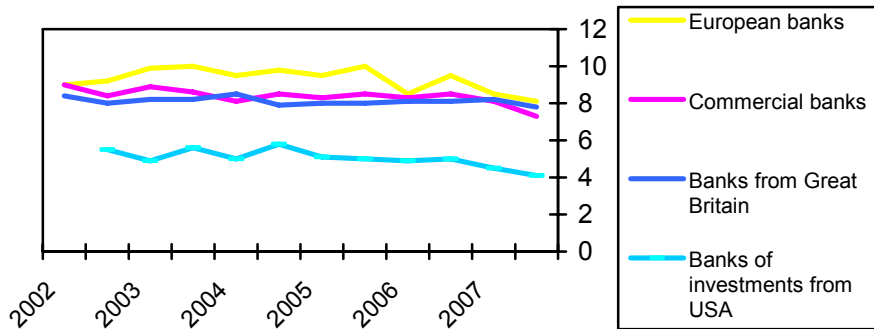


Figure no.3 The evolution of the solvency ratio at the banking institutions

Source: Bloomberg

To stop these negative effects the Federal Reserve dropped the interest from 5,25% to 2% and financed the banking system with liquidities of 400 billion dollars.

Still, what appeared to be an sub evaluation of the risk on the mortgage credits market from the USA proved to be one of the biggest crisis from the last ten years. The hedging funds watched as a source of the systemic risk have reacted better than the regulation institutions. The market between banks considered to be one of the most efficient and liquidity suffered a series of malfunctions, especially in the aspect concerning liquidity, as it is shown in the next graphic.

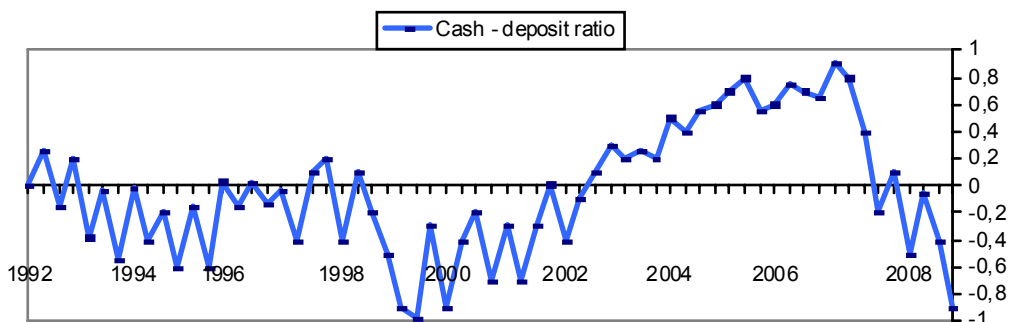


Figure no. 4 The evolution of the liquidity on the financial market

Source: Bank of England, Financial Stability Report, April 2008.

These deficiencies raised a series of problems to the regulation authorities. First and the most important is the liquidity risk which in the Agreement Basel II is not mentioned.

¹¹ Loss of the banks are according to Bloomberg approximately 400 billion dollars

As a consequence of this fact, The International Bank of Regulations took the decision to publish at the end of the year a set of standards to regulate this risk. Mainly, the liquidity risk with which has confronted the banking institutions was administrated through facilities offered by the central banks.

The financial crisis started in august 2007 affected great banks. So, the banking capitalization increased, in 2007, with only 2,4 %, in comparison to 31,6% in 2006. Total profitability of shareholders decreased from 26,1% to 1,7%, in comparison with an average of the market of 15,2%, as can be seen in chart no. 1. The financial crisis affected one of the greatest banking groups, depending on capitalization. So, meanwhile, banks from North America and Europe lost 695 milliards \$, and banks from emergent countries, especially the ones from Brazil Russia, India and China, gained 888 milliards \$¹². The greatest bank of China – ICBC, China Construction Bank, Bank of China – hold 3 of the first 5 places, meanwhile banks from United States– Citigroup, Bank of America, JPMorgan Chase – lost field.

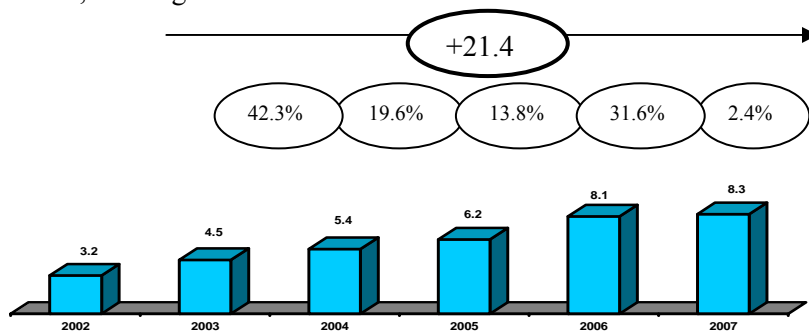


Figure no. 5 Banking capitalization (trillions \$)

Source: *The Boston Consulting Group – Creating Value in Banking 2008*

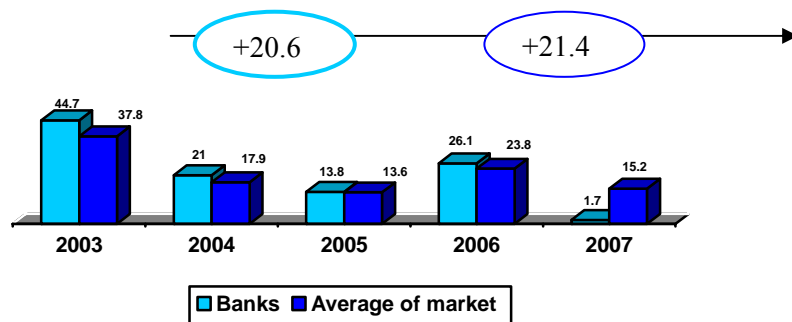


Figure no. 6 Profitability of shareholders(%)

Source: *The Boston Consulting Group – Creating Value in Banking 2008*

These favorable evolutions, in the period 2002-2006, accompanied by a continuous improvement of profitability, including in the first two trimesters of the year 2007, created the premises for banks to act in a responding manner to financial

¹² Bloomberg - ICBC Deposits Citigroup as Chinese Banks Rule in New World Order

turbulences. As was expected, the financial crisis led to increasing of the lend costs, solvency deficits and implicit, to the diminishing of profit. As a consequence it was reduced the ability of the banks to generate supplementary capital through the agency of incomes. On the contrary, losses from mortgage credits, which raise to 503,8 milliards \$ led to capital increase of 352,5 milliards \$¹³, until 20 august 2008.

The main impact of the crisis of mortgage credits was reflected in the diminishing of the profitability of the banks that reached the most reduced level since 2003¹⁴. So, ROE decreased from 18,59%, in 2003, to 11,41%, in 2007. Also, the profitableness of the assets was reduced from 0,71%, in 2003, to 0,46%, in 2007. This caused, mainly, the decrease of the incomes and the increase of the balance of risky assets. The capacity of the credit institutions to control operational costs, in the context of the rapid expansion of the crediting activity, become worse in 2007, the value of the indicator of costs efficiency (cost-income ratio), of 63,89%, increasing with about 6,5 percentage points than the level registered in 2003. This evolution was obtained based on a superior dynamics of operational costs, in comparison with the ones of operational incomes.

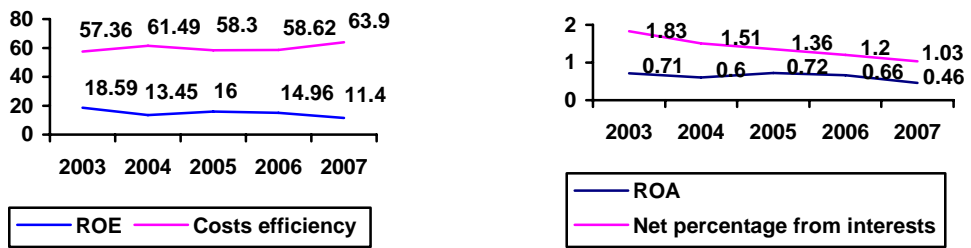


Figure no. 7 Evolution of the appreciation indicators of banking activity (%)

Source: BankScope

The competition in banking industry became more intense, this being determined by the continuous unsettlements and opening of the international markets, of the acceleration of regionalism and globalization but also the fastest development of online- banking services. So, a great number of banks entered in countries that presented an increased development potential. The stringent concurrency led to the diminishing of the net ratio of the interest, these reaching the most reduced level, decreasing from 1,83% in 2003, to 1,03% in 2007, and created the premises of development of purchasing and mergers from banking industry. In 2007 the market was taken-over by Royal Bank of Scotland, Santander Bank and Fortis of ABN Amro, this taking- over being the greatest transaction from banking industry.

Record incomes that have been registered by banks in years 2002-2006¹⁵ contributed positively to the increase of the capital and strengthen of the solvency ratio. Despite these favorable evolutions, the financial crisis led to significant diminishing of the bank's profitability, in 2007, the profit of the first 20 from global level, diminished

¹³ Financial Times – Subprime fall-out

¹⁴ Calculus are realized based on financial results published by the best 20 banks in the world

¹⁵ Calculus are realized based on financial results published by the best 20 banks in the world .

with 14,20% in comparison with 2006, and 1st class capital increased with only 9,03%, in comparison with an increase of about 21 % in 2006.

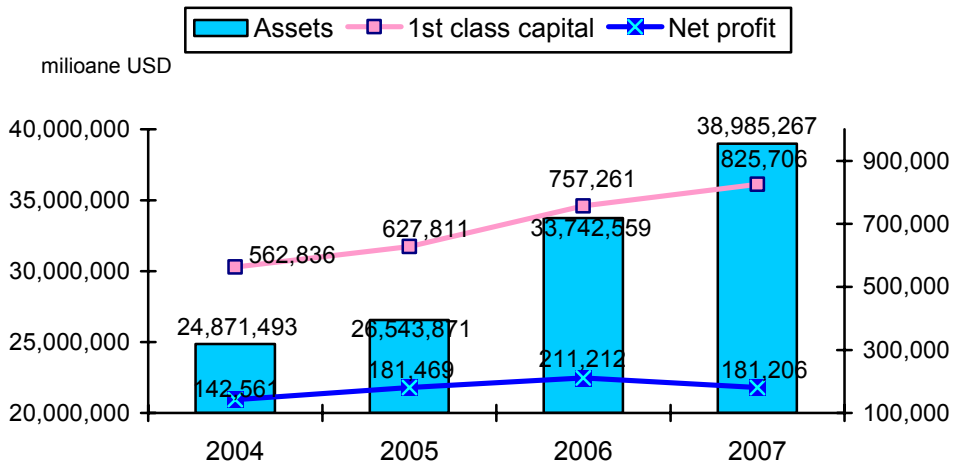


Figure no. 8 Evolution of assets, 1st class capital and profit for the first 20 banks

Source: BankScope

The financial crisis affected visibly the main banks from the United States, but also from Europe. Even banks recognized for risk's management based on highest standards had to suffer. Analyzing financial results of the first 20 banks in the world we can highlight the aspects and tendencies that manifested. So, one of the greatest financial groups at global level, Citigroup had the lowest level of ROE and ROA from the 20 banks. This was caused, mainly, by substantial loss from mortgage credits¹⁶. Also, rates of low profitability have been registered by Société Générale, being due to losses, of 5 milliards euros, caused by own trader. Concerning the European banks, there should be underlined the evolution of the Spanish bank Santander Bank, the indication of appreciation of profitability of assets, capital, as well as the efficiency of costs having the best level. This evolution has been determined by internal factors as well as by external factors. Concerning internal factors, must be underlined the fact that, as a result of purchasing ABN Amro, Santander took over its operations in Latin America, so Banco Real from Brazil was being administered by the Spanish bank, contributing to increase of the profit. The second feature, as a result of the politics of the surveillance authority in Spain, Santander Bank was not exposed on the market of mortgage credits. From the measures of the authorities, must be underlined the dynamic system of making up provisions. So, in conditions of accelerated increase of credits portfolios, banks need to made up some increased provisions to be used in conditions of damaging credits, the procedure being seen as a correction of credits portfolios, which will not allow the apparition of some excessive profits in conditions of economic boom. Another measure, contrary to provisions Basel I, would be balancing, depending on risk degree of the extra – balance elements.

¹⁶ Losses will raise, in cofnornity with Bloomberg, at a level of 55,1 milliards dollars at 20 August 2008

It must be pointed out the evolution of banks from China, ICBC and China Construction Bank, which have the lowest level of efficiency of expenses, 36,36% and 39,63%, but also indicators of appreciation of profitableness which are superior to the other banks, this tendency reflecting the capacity of banks from emergent countries to generate increasing incomes. Even if it is difficult to quantify the entire impact that the crisis subprime had on banks it is very clear the fact that we will assist at structural modifications in the modality in which these will evaluate risks. Banks starting this process earlier will have a competitive advantage in front of competitors. We believe that the main measures that must be taken by banks are the following:

- ✓ reevaluation of risks. On short term, banks must evaluate with a higher accuracy the exposition of credits' portfolios. For this, they will have to develop sceneries of stress-test. Also, banks should adopt risk's management patterns that will allow them, not only to measure, but also to detect the potential impact of the operational risk;
- ✓ improvement of transparency. For instance, banks and investors should not be based on ratings of the agencies. They should integrate qualitative aspects in management of risks, meanwhile, quantitative patterns proved to be insufficient;
- ✓ a more efficient assignation of capital. The increased cost of capital will force banks to manage, more efficiently these resources, in conformity with Basel II agreement and autochthon regulations;
- ✓ the development of some patterns for more precise appreciation of the credit's price. The price of credits should include, besides the cost of the capital, the risk bonus for liquidity risk.;
- ✓ renewal of the strategies regarding management of residual credits. The experience showed that recovery of residual credits might increase with up to 15% in conditions of improvement of techniques and processes;
- ✓ banks should be prepared for a more strict regulation. The consequences of the financial crisis have created the premises for authorities to supervise and introduce new regulations.

Unlike banks in developed economies which faced numerous financial problems, the bank sector of emergent economies, was performing over expectations. In conformity with The Banker, Asiatic banks posses 19% from the profit of the first 1000 banks, registering an increase of 7 percentage points, meanwhile banks from Latin America reached a balance of 4% in 2007, from 2% in 2006. In this ascendant evolution have been registered banks from Romania which continues to register record profits from one year to another.

4. Conclusion

The financial liberation which manifested for 20 years (faster or less faster in different countries) materialized mainly in: the acceleration of the financial innovations, high non-regulation, financial globalization, expansion of the capital markets reflecting a trend of non-intermediation. The financial system becomes, then more efficient as a direct result of globalization and innovation, but not necessarily more capable to absorb the shocks. Concerning the regulation authorities these must stay vigilant and flexible, to elaborate, in this purpose models which have to surprise and correct the unfavorable dynamic of the economic cycles.

The international financial connexions, the new financial products and the more ample distribution of the risk also increased the interconnection degree on an international level of the financial markets. Thus, the financial systems are more

exposed to risks, because of the possible contagion. Due to this, the skeptics expressed their concern related to the stability of financial integration on world level, considered as potential destabilizing of the world economy. There is also the contrary opinion according to which the globalization would reduce the risks with which it confronts the global economy.

The Report of Financial Stability of the Bank of England, published on the 23rd of October 2007, sustains that the actual financial crisis could not be solved rapidly and without costs. The loans to the sub prime debtors of the USA generated big losses, and the lack of information concerning the bank exposure to global risks determined the effective closing of the market for guaranteed titles with actives and loans with guarantees. In report, it is recognized that both banks and the regulation and supervision institutions need plans to cope with the problems that such banking systems present. The supervisors must assure themselves that banks have adequate liquidity for the type of developed activity. More, the Basel II regulations concerning the banking capital, which demand a bigger exposure of the banks, could contribute to the increase of transparency, thus reducing the tendency to keep the very extreme risk actives outside the bookkeeping balances of the banks.

In our opinion, the conditions of financial fragility should persist for a while, and the system will be vulnerable in front of new shocks.

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AN APPROACH OF THE RELATIONSHIP BETWEEN FINANCIAL AUDIT AND ACCOUNTING FINANCIAL CONTROLLING

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Abstract :This paper presents the necessary theoretical approaches for the delimitation and localization of the historical sources of the financial audit and of the relational ensemble accounting-financial controlling – financial audit, harmonized with International Accounting Standards. Market dynamics, economic conjuncture is elements witch can rapidly influence financial results, which require financial auditors to determine exact information regarding the future evolution of the patrimonial entity and regarding bankruptcy risk. Therefore, these aspects can hardly be noticed by means of the calculation and the analyses of all financial ratios of the patrimonial entity, since this method takes a rather long period time.

JEL classification: M41, M42

Key words: financial audit, financial controlling, method of extrapolation

Introduction

The evolution of the financial audit in the society has been gradual, being known as a distinct specialization of the accounting since the XVIIIth century, but without an exact dating and localization.

Even if the border between the sources of accounting and financial audit is not clear, their domain of application is distinct. From the historical point of view, we have noticed that the International Accounting Standards and financial audit have a common origin, being created by the professional institutions of England.

The contemporary period is market by the introduction of the International Accounting Standards as complex and complete principles of accounting used to present the financial reports of the patrimonial companies.

We can note that the financial audit appeared out of objective necessities, the same as accounting and financial controlling. Even if the initial goal of the financial audit was that of detecting the frauds, it has evolved in time that nowadays, it has the role to certify the accuracy of the information presented in the financial reports and their accordance with the International Accounting Standards.

The financial audit was introduced in our country in the transition period forward the market economy, out of the Romanian specialists wish to correlate and adapt the Romanian regulations with the accounting standards stipulated on the international plane. The Romanian financial auditors formulate the objectives of the financial audit in order to supervise permanently the application of the National and International Accounting Standards (Bogdan & Trandafir, 2003)

As a matter of fact the correct use of the stipulations of the International Accounting Standards represents the guiding principle of the financial audit activity in a patrimonial entity, which works according with these regulations. The financial audit has been

evolving from the accordance and attestation stage to performance, from the present phase to that of the accordance with the International Accounting Standards.

The statute of the International Accounting Standards in Romania

An important step made in order to establish connection between financial audit and those International Accounting Standards from the normative point of view is represented by the obligation imposed to certain patrimonial entities to make the audit of the financial reports, simultaneously with the application of the International Accounting Standards. Thus, the audit of the annual financial reports according with the International Accounting Standards has become obligatory (Bogdan, 2005).

International standards, both those of accountancy and those of financial audit, were taken over by Romanian legislation, at first experimentally and then, because of the proceedings up-dating, they could be introduced irrevocably in the form of national legal regulations.

Our research proved the fact that the investors who require an audit of their financial standing and the harmonization of their financial position with the provisions of the International Standards of Accounting draw a conclusion after comparing the results obtained to those provisions to harmonizing. The former, though not favorable to patrimonial entities (the profit is lower, the stock value is lower too), are to be preferred, because they present truthfully the patrimonial reality, and the financial ratios obtained by the firm are credible (Duţescu, 2000).

We consider that all the actions undertaken to regulate and put into accordance the financial audit with the International Accounting Standards represent the "foundation" for the Romanian financial audit to be recognized internationally.

We highlight the fact that the necessity of harmonization is also a result of companies desire to apply *a uniform accounting system*, obtained by obeying the provisions of the International Accounting Standards. The usage of several systems of regulations leads to slow operations and especially to expensive ones and the results obtained differ (Belverd and all., 2001).

Furthermore, by harmonizing the financial audit with the International Standards of Accounting we envisage the improvement of the accounting information quality so that the information resulted from the financial positions audited is real and correct.

The French professor Bernard Colasse stated: "once accomplished the adjustment of the accounting system to the new social and economic tendencies of a certain age and place, this adjustment has favored the temporal and spatial spreading of these novelties factor of progress in their economy".¹⁷

The accounting information needs to be reliable in order to be used in the decision - making. This quality is the result of the accumulation of a series of characteristics: pertinence, reliability, temporal and spatial comparison, cost efficiency for data gathering and processing.

In our opinion, the financial audit has the purpose of enhancing user's trust that accounting information has been obtained, processed and analyzed according to the provisions of the International Standards of Accounting and Financial Audit, and financial statements present (totally or partly) the true image of the patrimonial realities

¹⁷ Colasse B. – General Accounting, Moldova Publishing House, 4 edition, Iaşi, 1995, p. 45.

at a certain date (audit's date).

Therefore, we can say that present day accounting regulations in Romania require that the making – up financial statements should reflect truthfully and correctly the image of the patrimony. This is possible if these who manage patrimonial entities make appeal to the professional judgment of financial auditors.

Few particularities of the method of auditing a financial statement

When planning and defining a method of auditing a financial statement, the most difficult aspect for financial auditors is represented by obtaining an adequate quantity of audit records, with minimal costs and without having obstructed the normal activity flow of the patrimonial entity.

The relevancy of financial audit records is significantly influenced by the quality and thoroughness of the activity carried on by the financial auditor or, in other words, by the independence and accuracy of his conclusions (Bogdan, 2007).

Market dynamics, economic conjuncture is elements witch can rapidly influence financial results, which require financial auditors to determine exact information regarding the future evolution of the patrimonial entity and regarding bankruptcy risk.

We think that these aspects can hardly be noticed by means of the calculation and the analyses of all financial ratios of the patrimonial entity, since this method takes a rather long period time.

Thus, by using the method of extrapolation, we have rapidly found out some tendencies depending on time. When using *the method of extrapolation as a procedure of financial audit*, we recommend its usage for patrimonial entities which have their financial statements drawn up according to the provisions of the International Standards of Accounting, in order to elaborate predictive studies for prolonging the past tendencies of variables. The most spectacular aspect encountered by us when using the above-mentioned visualizing the impact had by harmonizing accounting with the International Standards of Accounting represents method.

The knowledge and understanding of the economic domain studied by the financial auditor, the detailed analysis of the relationships between revenues and results, all depending on time and on other parameters motivate us to make appeal to the method of dynamic pattern-making and to include it within the financial audit procedures.

The usage of dynamic pattern making offers us a much char and more detailed picture and the studied relation. By using dynamic pattern making we can identify cyclical or periodical aspects of the studied phenomenon, and implicitly the time horizon they refer to.

Dynamic pattern making is a modern technique used mainly to predict the economic activity of patrimonial entities, but which, we think, can be useful to financial auditors, as a procedure of information processing and simplified representation of the phenomenon.

To the manager of the patrimonial entity, the financial audit has the role of offering specialized suggestions to surpass a situation of crisis or to obtain an increased efficiency of the results.

Our opinion is that Romanian firms haven't reached that level of awareness necessary, or have no interest to appeal to the professional services offered by financial auditors. This explains the general lack of interest for financial audit as a means of reflecting the way we obey the provisions of the

International Accounting Standards and also as a means of correctly presenting the financial results obtained.

We consider that it is necessary *to increase the number of the firms audited periodically or annually*, especially of those which take an active part in auctions on Romanian market, of those which use credits, of hospitals and other institutions which ménage large sums of public money.

Conclusions

This paper clarifies the uncertainties and confusions, which exist among the financial audit and accounting, the financial controlling and the internal audit. Thus, we have specified that, even if the border between the sources of the accounting and those of the financial audit is vague, their domains of application are distinct.

The use of the *dynamic pattern making as a new financial audit procedure* has the advantage of a technical apparatus very well developed, studying both the existence and the stability of equilibrium solutions, because a solution of unstable equilibrium cannot be observed in reality.

One of the *advantages* of this procedure being used by financial auditors is the *shortening of the time spent by the financial auditor to understand the economic financial position of the client* another advantage is obtaining a useful prediction.

Another advantage and maybe the most important is represented by the fact that this procedure of dynamic pattern making *helps us to identify cyclical or periodical aspects of the patrimonial entity audited and implicitly the time horizon it refers to*.

The advantages of using this procedure are more numerous than the possible disadvantages, fact that encourages us to recommend the usage of this new procedure of financial audit and to convince financial auditors that optimal results can be obtained in a short time.

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MICROFINANCE— A WAY TO CONFORNT POVERTY AND STIMULATE ENTREPRENEURSHIP WORLDWIDE

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Abstract: The study presents the microfinance sector, by analyzing the general context in which this type of economic activity has appeared and developed since early age. While microfinance clients have certain profiles, sector's products are diverse. Moreover, Microfinance Institutions are different from classic bank structures, they have specific juridical background, often launching as non-profit organizations and they have developed in time complex assistance services. In Romania, non-financial institutions have mostly implemented a commercial strategy that guarantees a higher capitalization of invested funds. Still, Institutions have difficulties in adapting to market evolution; therefore some of them prefer becoming banking institutions instead. Nevertheless, present social-economic context points up the high demand and necessity of this type of services.

JEL classification: G21, F36

Key words: microfinance, international organizations, poverty, international economy

1. Introduction

Microfinance is a worldwide recognized effective instrument to fight poverty, financial and social exclusion. In Europe, the development of this sector has begun in the ninety's and it has progressed differently form one country to another. A rapid and sustainable growth in the Central and Eastern European countries (including some of the new E.U. member countries) has contrasted with the slower enhancement of this sector in the Western European countries. Diverse networks, such as Microfinance Centre (MFC), European Microfinance Network (EMN) and Community Development Finance Association (CDFA) were involved in the efforts to create and stimulate positive experiences, adapted to the specific of each country and to the modalities in which every one operates. A reduced know-how transfer was registered between members of these international or regional networks.

Micro credit, the main instrument of Microfinance institutions, was introduced in the eighties, although these sorts of “need financing” experiments existed even 30 years earlier, in countries like Bangladesh, Brazil and other several states. What mostly differentiated micro credit than the classic financial credit was the effort to avoid flaws of early generation development programmes, by insisting upon the reimbursement of all small credits and by calculating interests and commissions for each provided service, in order to cover the total costs of activity. Furthermore, the programs pursuit the

concentration of efforts upon client groups that had as alternative credit source the informal sector. The interest has passed in time from the subsidy loan type programmes to programs investing in the sustainable growth of local institutions that may serve the interests of people and small business lacking financial resources. Generally speaking, micro credit was been an initiative of the non-profit, private sector, avoiding to reach a political character. This approach has permitted the microfinance sector to register higher performances, in the past 20 years, and also it enhanced the identification and development of new necessary financial services, provided by this type of institutions.

Poverty has multiple dimensions. Facilitating the access to financial services, both for individual persons and enterprises, Microfinance sector plays an important role in the eradication of these numerous aspects of poverty. For instance, revenue generating process of a certain business must encourage the general, qualitative and quantitative, development of products and services, but it also affect income sources to become more stable, it enhances food security, children education and so on. Moreover, as women are often excluded from the public space, the interaction and transactions with formal institutions and authorities contribute to the increase of self-trust and ability to involve in a certain remunerative small business. Therefore, we can conclude that Microfinance exercises a strong influence upon the entrepreneurial spirit and economic initiative, regardless discrimination of any type.

Recent studies show the intense measure in which individuals from the excluded categories are more vulnerable to external shocks than the others, such as diseases, violent climate phenomenon, robberies or other similar events. These type of shocks might induce severe lack of basic resources, also financial resources, already being limited. In the absence of efficient and properly implemented financial services, these people find themselves going deeper into poverty. The recovery and repositioning on the anterior financial stability level might take several years time, even more than 10.

The typical microfinance clients are those persons having small incomes that usually do not hold the access to formal banking institutions products. These individuals are usually unofficially employed, working on their own, some of them working for their personal small businesses. In rural areas, they own small farms or households, or they are people involved in certain small scale revenue generating activities, such as cattle commerce, wood industry etc. In urban areas, on the other hand, the diverse microfinance services reach up to different type of individuals depending on their occupation, and they include small shops owners, services providers, handicraftsmen, street vendors and others. Therefore, microfinance clients will always be poor and less poor, but certainly vulnerable people, demonstrating a relative stability of income sources.

While new financial services of the Microfinance sector are introduced on the market and are being developed, the potential market for this type of clients interested in the programs is also expanding. For instance, micro credit alone has a limited market to address to, nevertheless one complex financial services portfolio, which may include different type of deposits, payment services or insurance, is more likely to satisfy a higher demand. Many impecunious people, coming from the rural regions, frequently prefer opening small bank deposits, for money that otherwise would be squandered in several months, to satisfy daily necessities, than borrowing significant sums of money that they might not be capable to refund.

2. Specific Products of Microfinancing

Government institutions and support agencies often try to make use of microfinances as a device to compensate for other social problems in a country, such as drought, floods, refugees' reestablishment, civil wars victims, unemployment, devalued level of professional education and so on. Because the micro credit has been promoted as a device of reducing poverty, one expects this one to be the solution for those who have become poor as consequence of the already mentioned circumstances. The Micro credit programs rarely function in these situations. A credit needs a 98% performance rate in order to be effective. This means that 98% of those who have graduated the professional training courses or 98% of the refugees that have returned to their country should set up some successful micro enterprises, solvent, so that their micro credit paid installments be high enough to allow the general sustainability of such a microfinance program. But this thing is practically illusory. Running a program, in which installments are not paid or have a lower value than the credit itself, acts contrary to the notion of credit and dissolves the practice of repayment among those who can afford it.

For this very reason, the Micro credit represents a viable solution for those who have already identified some economic opportunities which they can transform into capital if they are provided small amounts of money. So, those persons who work in stable and progressive economic systems, those who have proved abilities to organize different activities proposed within the enterprise and who, at the same time, have taken upon themselves the engagement of debts repayment (without having the feeling that the respective credit is some kind of social aid) are the best candidates for the Micro crediting programs.

The supply of financial services to the poor is a practice rather expensive, especially if one relates to the level of implied transactions. This is one of the main reasons for which banks do not loan small amounts of money. For instance, a loan of 100 dollars requires the same number of employees and resources as one of 2000 dollars, the costs per transaction unit consequently raising. Credit officers have to pay visits to clients at their residence or work place, to evaluate their repayment capacity on the basis of some interviews with their families or acquaintances, and in many cases, the credit officers continue this procedure in order to stress on the importance of a blooming repayment culture. So, the costs of a 100 dollars micro credit may raise up to 25 dollars. This being 25% of the loan value, the institution finds itself thus obliged to apply an increased rate of interest as to meet the administrative costs.

3. Microfinancing Institutions

Microfinancing institutions are organizations that provide financial services to those categories of persons with lower incomes. A large part of these organizations offer micro credits and take in exchange small amounts of money from their clients. Within the microfinancing industry, the term Microfinancing Institution refers now to a wide variety of organizations that control the supply of these services: NGOs, Credit Unions, cooperative societies, private commercial banks and non-banking financial institutions (some that have evolved from NGOs into systematized institutions), as well as banks with government capital or with private capital, independently administrated.

The common image that people visualize by referring to a microfinancing institution is that of a 'financial NGO', a NGO that dedicates itself thoroughly and totally to supply the financial services: but, most of the time, NGOs are not allowed to create deposits of savings coming from the general public. This group of organizations

has led to the development of micro credits and hence to microfinances, globally speaking. The organizations in discussion encompass the newest crediting methods in order to generate efficiency and also access to the more under-developed spheres of economy, on sustainable bases.

As far as the profitability of these organizations is concerned, statistical data of the MicroBanking report, from 2005, point out that the first 63 Microfinancing Institutions of the world, have an average of the profitability rate, after having adjusting them according to inflation and having also considered the subvention programs that they would have received, of 2.5% of the total income. This rate may be compared as standard with those from the sphere of commercial banks and besides, it renders credible the hypothesis that microfinances can be sufficiently attractive as to be implemented in the retail banking field, thus increasing also the number of clients that can benefit from these programs. On the other hand, some parts are worried that a too heavy interest in obtaining profit in microfinances may lead to a reorientation towards categories of clients who have greater capacities of absorbing larger amounts of money. This is called the 'crowding out' effect. This may happen in the circumstances in which there is a considerable number of people with mean incomes who do not have access to the services provided by the banking system or other crediting societies.

As the microfinance programs have extended as number, seeping in more and more regions of the world, institutions have become thus interested in offering a legal framework that would allow the development of their practices. This fact allowed further the advancement of some alternative types of financial NGOs, credit unions and other institutions that would be able to obtain licenses in order to provide specialized financial services. This may represent an adequate strategy in some countries, but in the majority of them, their general progress level of the microfinance industry cannot yet grant the licensing of a special class of institutions exclusively meant to the category of persons with low incomes. A disadvantage would be that of the high costs implicated by a correct supervision of this new segment, costs that may even rise up to 25% - 50% of an agency's total budget considering that the final incomes to be produced would be only a small part from the whole financial system.

4. Romania and Its Microfinance sector

As far as Romania is concerned, it can be mentioned that Microfinances set out 14 years ago in this space, when the first international institution within the Microfinances field initiated a program for financing the expansion projects of the Romanian SMEs. In the last years, this one has become more and more efficient and productive, achieving a more and more significant role in providing the necessary support and services to enterprisers. Regarding the legislative circumstances, one may affirm that the authorities really uphold this program in promoting a proper framework to be favorable to the development of activities; furthermore, EU stimulates the initiatives of developing this field. Hence, though micro credits put forward various forms and accomplish different roles, in the EU member states and regions, they are frequently used as devices as to encourage the expansion of independent activities, as well as the foundation and the development of micro enterprises.

In Romania, the majority of the microfinancing institutions have adopted a strategy with a strong commercial character, this one producing also the best profits. In the same time, this strategy has led to the extension of the access to services, geographically speaking, and to the growth of efficiency and productivity of the

specific activities. But unfortunately, this strong commercial character, which is reflected in its attitude towards the market, disadvantages all those organizations that pioneer especially the social support. Besides, it may be observed that the majority of initiatives and almost all the activities, which are made public or promoted, relate mostly to enterprises and less to the general public and to the different social classes whose claims for financial services are consequently unsatisfied. The structure of national microfinancing field is displayed in the diagram no.1 (2006 data).

Only in Romania, it is estimated that a quarter of the total population is poor, and 8,6% of this percentage finds itself at the level of extreme poverty. That is, a person who cannot afford his or her consumption expenses at a maximum limit of 157,5 new Lei (1,570,000 old Lei) is considered to be a poor person, and if this limit is under 100 new Lei (one million old Lei) one may assert that the respective person lives in an extreme poverty. This category of persons lives under the standards of a decent life and does not dispose of the mere financing - crediting services or access to consumption loans and capitalization of the cumulative enterprising potential. Although, throughout the country, there is a series of non-banking financial organizations and institutions referential of the European and global economy, existing at least one institution per county, the number of clients, either physical or juridical, which appeals to microfinancing services, is still very reduced.

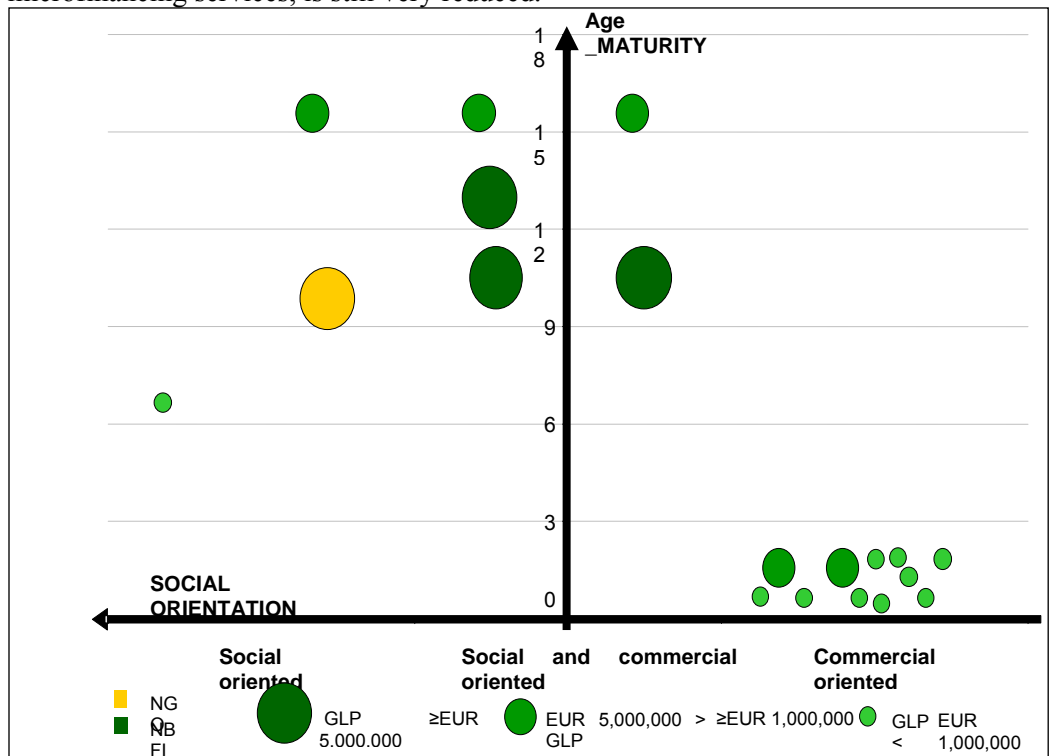


Figure no. 1.

As for the business sector, and the micro enterprises, which represent 99% of the entire EU's campaigns, one may be notice, given the present circumstances of the global liquidities crisis, a critical demand of the specialized services meant to this sector. Microfinances may represent a solution for the member states' economies, if one

considers that the microfinancing consultancy also stands for, apart from establishing the value of a financial support, providing training services, human resources recruitment, assistance in negotiations or studies and researches that significantly contribute by adding a high value, considering the ineffectual managerial capacities as the main impediments to a durable business.

As a conclusion, the present paper sustains the importance of the microfinancing sector, not only in Romania, but also in the world, this sector being a device of fighting against poverty proliferated throughout various global regions. If we are to take into consideration the statistical data referring to the apportionment of wealthiness in the world, statistics which reveal that only 1% of the global population possess 99% of available resources and that 40% - 50% of GIP, generated nowadays in economy, is produced by small and medium enterprises, with maximum 250 employees, it seems naturally to conclude that the banking financial sector represents a market recess extremely well valued, but which does not suppose the access to the public market because of the high risks typically implied by this one. Maybe it's the time for a revolution in this services sector, which for more than 100 years, has been serving the interests of the greatest world powers and of their corporations, neglecting thus the needs of masses.

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POSSIBLE STRATEGIES FOR ADOPTION OF MOBILITY DECISION

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Abstract: As you know, each economic entity which succeeded to penetrate and stay in business has an own history. The majority of attempts to outline such histories-the entrance in business of small companies-they strike by rigors of competitive environment and they remain anonymous, failing before „forming a name”. Through consolidation of the beginning in business and successive positions obtained by middle and big economical societies, some histories of this kind become more known. However, it is presented the studied problem of the strategies which can be applied to get through challenges imposed by the market. So, we will achieve a critical analysis of strategies' types adopted by managerial teams as well as the effects of these application.

JEL classification: D21, D23

Key words: commercial societies, strategy, mobility operations, decision of the firm

The commercial societies confront gradually with the strikes of the market and with more and more hard competition. With other words, the way which they make to stay in question, and it is influenced by the environment which develops its activity. Gloomy shadow of bankruptcy hangs over any economical entity. „Today”, the evolution of business can be favorable-which means substantial wages, protocol funds, conferences, sponsors etc- and „tomorrow” which means 2 or 3 years, apparently without any reasonable explanation, situations of crisis come suddenly and interrupted life and normal evolution of economic entities in business world. When the situations of crisis appeared in business they are ended through liquidation and, so, the bankruptcy of commercial societies, and there appear negative bearings for unemployment for employees, litigations for administration, losses for creditors, losses for banks etc. Generally, in Western countries, the bankruptcy and the liquidation of economic entities consist in a marginal solution; there are often discussed intermediary reorganization solutions in juridical control for commercial societies which have difficulties.

Over these reasons, it still remains the fact that the difficulties, the situations of crisis and the bankruptcy are permanently accompanied by each „step” achieved by economic entity on its way in life or each stage in the evolution of own business localized in a competitive economy. How and what way can be presented and avoided this kind of situation? What do they offer, from this point of view, the economic theory and the science of management for the decision-makers of the microeconomic level? It is difficult to show global answers and without nuances of such questions; it is certain only the fact that there aren't receipts or universal solutions with guaranteed application, which can be offered „free” to an enterprising, manager or contractor.

However, learning from the experience and the mistakes of other economic entities, starting from the concepts and principles made by theory, substantiation each plan, made strategy and important decision, choosing for new and knowledge-managers will increase the probability the conducted entity stays in business on a long period of time, including to reach the big performance. Within all these, the strategically thinking on a longer period of time occupies a special place to shape the evolution and the future of a commercial society.

In the last few days, the statement „strategy in business became a key expression in all books written about that”. The term „strategy” was for the last time used in economic works, referring to management and evolution in business of big economic entity , by Alfred Chandler in Strategy and Culture, 1962. Approximately in the same period, a brilliant analysis about the strategy of business offered Peter Drucker in his work Managing for Results, 1964. After that, a big number of works in management concentrated in this subject offering-unless receipt or universal solutions of projecting an evolution of a business-at least a projection support of wished future and possibly economic entity. The application of strategic thinking in business doesn't equal automatically with careless future for commercial societies, it is very probable that all back of some management strategies to equal with the lack of any future.

„We know two things about future-says Drucker:

„This can't be known.”

„This will be different by what is now and that's why we wait at the present.”

The implications of these simple affirmations of Drucker evidence the fact that sometimes they could have success in prediction trials of some future events, but we have the duty to try to anticipate the future effects of the events which took place irrevocably. With other words, in the strategic thinking-because it isn't possible to remove the risks and uncertainty in the evolution of business-managers shouldn't try to project the future „pink”, „happy” or „very probable”.

For example, the economic theory offers a lot of models for exploitation of future on a formal basis, including for analysis of long term strategies „through a number of scripts”. Finally, the analysis and the selection between strategic variants is still the human factor, the formal models support only this way. In Drucker's opinion, what a manager proposes is „to identify and, occasionally, to estimate correctly the possible risk assumed and to exploit the uncertainty.” The goal of projecting work of future it „doesn't decide what should be done tomorrow and what should be made, today to have a tomorrow”. Of course, from Drucker's advanced opinions in the work mentioned before and till recent opinions and concepts- made in the context of well-known strategic management works-we register an amplification unprecedented of treated problem. Some authors identify the evolution of strategic management of four different stages/steps:

- 1st stage- basic financial planning (it was exclusively accentuated the financial part of the activity)
- 2nd stage- depth planning (there were calculated all resources of economic entity)
- 3rd stage- external environment planning (decision-makers are reported to customers, competition etc)
- 4th stage- strategic management (is included all problem of actual works of strategies in business).

As you know, the substantiation of management strategy by the economic entity takes place mainly in two different plans, at organization level, meaning the ensemble of commercial society, and business level, meaning activities and domains which this is involved.

The organizational strategies are made in the top management level and it says what business domains will be landed and how will be divided the resources of economic entity between these domains. At this level, used, the classification of main strategic alternative types which can resort the commercial society includes the following:

Increasing strategy consists of extension in the same business domain through: increasing of detained market quote; developing and diversifying product or service; horizontal integration of some commercial societies. The analysis of deals like mergers and acquisitions made at international level allow us to find that their majority was the result of some concentration strategies. We can give examples about the deals which involved big brands in the United States of America like American Tobacco Company or Standard Oil Company. Analyzing these types of deals we find that 1990s are characterized through a concentration of vehicles producers. The adoption of concentration strategies was imposed by the increasing of vehicles production in more alert rhythm than the request.

In this context, the competition became more merciless, the charges with the development of new models increased very much, what determined the producers to extent in more and more markets. This extension has the goal to allow the obtaining of scale economy and the achievement of such business numbers and profits which ensure the survival in a hostile environment. The beginning of „concentration” in vehicles industry was given by the merger of Jaguar firm by Ford and the acquisition made by Volkswagen of Spanish producer Seat and German Audi. Although these deals were the first which affected the producers in this domain, the merger between Daimler-Benz and Chrysler can be considered a true model and a reference in this domain.

The strategy adopted by managers of Daimler-Benz was the globalization of the company. In 1997 the Executive of Daimler-Benz presented the strategy of the entity:

„For a company like Daimler-Benz the globalization isn't an optional strategy. In 10 years starting from now we intent to become number 1 or 2 in each our activity domains. For example, we are world leaders in commercial vehicles, number 1 in railways through Adtranz, number 2 in aeronautic industry through Airbus, and Mercedes-Benz is leader in personal vehicle segment. We wish to double the returns and to be in the four worldwide companies. How will we succeed this thing?

The first objective is the intensifying of developed efforts on the increasing markets. It must be introduced good products and services in good places. So, there were made vehicles class M in Alabama, class A in Brazil, buses, trucks, planes in many other countries of the world to respond to the diversifying need of markets.

Secondly, it is vided the leader position in innovation. Only the companies which anticipate customers' needs, transform good ideas in products and services and offer them on the market, in a short time they can have success.

Thirdly, the globalization it is a good method for employees' reward. It creates new work places abroad and in Germany. For each 3 working places outside Germany it is created one inside the country.

Fourth, it is followed the development of a corporative culture. To be an efficient world company, it should find brilliant people with good training in the

domain, but who, meanwhile, is adapted at local communities and to respond at these needs. There were searched capable people to work in more places without the nationality being a problem.

Fifth objective is the access of world capital. This thing supposes the listing of biggest money market in the world and the presentation of financial situation which corresponds to transparent standards requested by investors.”

All these objectives were reached in 1998 through merger with American firm Chrysler, merger achieved after many negotiations and under attentive supervision of Deutsche Bank Committee.

The achievement of these concentration started the mergers and acquisitions wave in vehicles industry, the majority of Asian producers fell victims in taking actions. So, Ford purchased 33,4% of Mazda, General Motors 37,4% of Isuzu and Renault 35% of Nissan. Practically, only Toyota and Hunday succeeded to stay independent. Meanwhile all British producers were taken by German economic entity (Rolls Royce, Bentley, Rover) or American (Aston Martin, Land Rover). In this context, after mergers and acquisitions which affected the vehicles industry in 1990s begins to be clear the statement of Volkswagen strategist, Ferdinand Piech, who appreciated that at world level, after concentrations, will remain only 8 or 9 vehicles producers. In this period it was achieved and take by Renault of main vehicles producer Dacia. In that moment of deal, this was compared with that of Czech producer Skoda by Volkswagen.

From all presented here, it seems that the concentration strategy is specific to auto sector, but it isn't like this. Practically, this strategy is adopted by economic entities which act in all activity sectors. We can give example this strategy adopted by American firm Con Agra which merged in 1980 Banquet Foods, in 1983 Armour Foods, in 1986 RJR Nabisco Frozen Foods, in 1990 Beatrice Foods, in 1991 Golden Valley Microwave Foods.

At the basis of justifying of concentration strategies stay a series of arguments which we consider that the most important are the obtained of scale money and the increasing of market quote. The main consequence of such strategy is the elimination by law, because they enter in conflict with antitrust legislation.

The strategy of vertical integration consists in the extension „up”- in contractors' domains- or „down”- in customers' domains. The adoption of such strategy follows the practicing of more increased control over the quality of delivery of raw materials in case of contractor's integration up extension(or over price policies and through a direct contact with customers (down extension). Without being exhausted.

This „up” strategy was adopted by General Motors when it decided to take Electronic Data System Company. The strategy of American vehicles producer justified through taking the control over production capacities of chips used in vehicles structure, being eliminated by the dependence of external contractors. These kinds of strategies were adopted by economic entities which develop the activity in taking and manufacturing sector of oil products through taking of control over extraction of hydrocarbons. An example is merging of Texas Eastem-specialized in the oil extraction-by Enterprise Oil- specialized in oil merging.

In the area of oil industry were applied up vertical integration strategies fact that took the merging the control over all chain, respective oil extraction until the distribution of products resulted after refining through own retail chains.

As in case of concentrated strategies, the integration strategies can take the increase of the control on the market, entering in conflict with provisions of antitrust legislation.

In practice, this adoption of such strategies is rare that that presented previous, because it demonstrated the obtaining of the control over mergerers and deliverers can be made through closing some very advantageous agreements for a long term collaboration.

There are in practice strategies and they represent a combination of both. So, it can be analyzed the taking over case by Pepsi Co of KFC, Pizza Hut and Taco Bell. From this point of view this taking over can be considered as being a result of concentration strategy, in the way that, the common point of four economic entities is represented by fast food marketing of cooling drinks.

From this point of view, the strategy which was at the basis of taking over was one which vised up vertical integration, because Pepsi Co delivers cooling drinks to KFC, Pizza Hut and Taco Bell.

The strategy of diversifying or achievement of conglomerate consist of the extension of the economic entity activity in completed different business in the current area or which are in an indirect link with this. The main motivation of adoption of this kind of strategy consists of the reduction of risk for the economic entities and for their shareholders, but the penetration in such activity sector which is very attractive or „speculations with firms”.

A strategy of diversifying was adopted by Phillip Morris company through taking over the control over Miller Brewing and 7U companies. Phillip Morris develops its activity in production area and while the trading of cigarettes while the taking entities act in different production, and 7U in the area of cooling drinks production.

Of course, „the economy increasing is vital for any commercial society”, but forcing this increasing over any normality limit can train a boomerang effect; especially launching about appearing business opportunities and the excessive extension of fixed assets can have a bad effect on long term. In other words, for any type of increasing strategy would choose, this should applied with a certain care.

Stability strategies or neutral involve consistency promoting of a statute taken by the economic entity „niche” of the market (Druncker, 1986, Toffler, 1995) which doesn't attract possible competitors,. In this case, the modifying of the attitude on the market and the appeal to new regarding products, markets or technologies which follow to make the entity, they will be modest; implicitly, business number stays stable or will increase step by step. For commercial society which adopts a strategy of this type, we can affirm that its evolution model approaches by ideal evolution model or by the increasing of an entity, but this ascendant line increasing remains permanently under a very little angle. In addition, the commercial societies which practice this strategy „remains with the money”-says Drucker-but they will stay anonymous because „... anybody be tented to compete”.

Defensive or decreasing strategy involves a partial discount or, rarely, total of the activity; the adoption can take place through decision-makers or after some objective factors with restrictive influences on short term; meanwhile, the adoption can take place in the lack of some better solutions. The strategic variants which can be followed in this case are concisely presented:

- the strategy of partial discount of activities which involve supplementary business costs or developed operations etc (scolds of assets, temporary discharges, discounts of salaries and/or prizes and growths etc);

- renouncing strategy which is comparable with the previous, but it involves completed sale of business and a part of economic entity; it is returned solution for situation which the strategy variant involves the division of commercial society in autonomous business unities. Because the acquisition of 7U firm didn't create effects, Phillip Morris decided the application of a renouncing strategy, through the sale of this by Pepsi Co.

- filing for bankruptcy which involves from own accord of strategy of reorganization under juridical supervision, if law allows entity such means of preventive protection towards a possible creditors' solicitation;

- strategy of captivity, a little or middle economic entity becomes the sub deliver of a big entity and he accepts the control;

- strategy of liquidation involves selling and dissolving of economic entity, or after a shareholders' decision, or an unfavorable conjuncture, respective creditor's decision;

Combined strategies stay in the application of commercial societies of some different strategies-simultaneously-in different activity areas. In fact, to print the desired evolution on economic entities, the managerial strategy adopted by the decision-maker should be characterized through a total flexibility. Only the successive adaptation of the strategy depending on opportunities and restrictions of average will bring up the performance entity.

Business level strategies are made for each business district area where economic entity is involved, establishing shares which intend to enterprises to be competitive in the area. The main strategic alternatives which can appeal to the commercial society in this care are:

- global domination through costs stays to offer products and services at smaller prices on the market, on the basis of discount measures of costs (production, distribution etc)

- difference of the product or service is a strategic alternative which the product is individual in customers' view as being unique.

- concentration over a certain segment on the basis of two previous strategies and other strategic variants, to obtain and keep supremacy on that segment.

Regarding main strategy types and strategy alternatives which print the mobility of commercial society, management literature is rich in offering other classification criteria, implementation ways or adapting solutions. We consider essential to remain in long term business, the economic entity is to dispose by a substantiation strategy, to be extremely fast in its implementation and keep the flexibility under pressure improved by change.

To offer universal solutions with guaranteed application, however, for modern economy, strategic thinking in business is necessary to keep that „advanced step” without competition. Strategic management isn't an exact science and it can't be learned only form books. The way to success in business of economic entity is hard, and the desired evolution will be a result of a complex of exogenous and endogenous factors. The strategic problems which managers confront are typically complex and multidimensional, they are characterized through high uncertainty levels and involving not only economic problems and market problems, and personality problems and

perception, socio-psychologically, political and organization culture. The strategy materialization-necessitates the creativity and a critical judgment of managers, judgment which is born from experience.

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THE GROWTH AND PROMOTION OF THE TOURISM IN SOUTH-WEST OLTENIA REGION

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Abstract: The paper analyze different facilities and services that have to exist when wanting to build a strategy in the field of tourism, with an application in the South-West Oltenia, focusing on the need of implementation of the quality in achieving touristic products. Also, it draws attention upon the importance of a touristic destination continuously, passing through all the stages of the development process in order for the destination to be revisited and for touristic products to remain valid and attractive.

JEL classification: R58, O14

Key words: strategy, management, regional development, local support

Introduction

Romania has represented an important touristic destination for the zonal market, promoting especially the summer and spa resorts, the cultural programmes and the monasteries in the North of Moldavia and Bucovina. The Romanian touristic offer has not much changed, becoming during the years uncompetitive in comparison with the exigencies of touristic demand and with the similar touristic products on the international market. Romania has been a desired destination for foreign tourists and has had a developed internal tourism functioning on a legal basis(The Tourism Law) since the period between the Great Wars. In the first half of the 60's our country has known a great growth of the tourism accommodation capacities in the Black Sea summer resorts. At the beginning of the 70's Romania was already known on the market of the main European countries-generators of tourists, especially Germany, Great Britain, The Scandinavian countries, France, Italy, Austria, Belgium etc. Starting with the 80's our country has lived a strong decrease of foreign tourists arrivals, a tendency which has been maintained, under attenuated form, in the 90's too. The main cause is the lack of investment funds directed to the development, modernization and reactivation of specific infrastructures, as a consequence of the slow and complicated process of privatization, the appliance of an inadequate fiscal policy, the absence of some facilities in the domain of banking credits etc.

From a financial point of view, the state hasn't done much to stimulate the growth of quality and the attraction of investors in the tourism domain. Comparatively Greece and Turkey have created a proper climate for the investors who want to develop business in tourism. The credits are reasonable and the conditions are excellent, not to

remind of the support the state offers through the generous sums destined to advertising. The main branches of the specific industry that Romania can count on are, according to World Travel & Tourism Council – WTTC, the spa, cultural, rural and business tourism. The increase of contributions to GDP from travels and tourism should raise from 4,8% to 5,8% in the next 10 years. Presently the tourism cumulated contribution both direct and indirect to GDP is estimated to 4,8%. Currently the Romanian tourism is still affected by the excessive taxation, lack of real facilities illogical measures and an excessive bureaucracy (aspect highlighted by the WTTC study).

Nationally despite the struggle with the obvious hardship generated by the growth of international competition in the touristic sector and the reduced capacities of adapting the touristic structures to the national and international market growing exigencies, a long period of time the Romanian national organisms have not been preoccupied by a professional approach to the theme proposed, proving an irresponsible attitude to the way in which these must be evaluated and managed.

The strategies of development of the tourist sector in Romania have proved to be weak and unperformant. The studies elaborated within OMT based on the market information and analysis realized in the European countries- great generators of touristic fluxes, and also the investigations done on foreign tourists who visit Romania, describe the Romanian touristic offer as such:

- All types of programmes offered by Romania meet a great competition on West-European markets;
- The Romania offer is relatively limited to a few resorts, and within these ones, only to some hotels;
- The offers are inferior to those on competition destinations as Bulgaria, Turkey, Greece or Cyprus:
- Recreation/leisure/hiking/traveling does not raise to the level of other destinations offers;
- The techno-road infrastructure is improper
- The absence of superior comfort hotels in the big cities and in the resorts of international appeal;
- From the point of view of the rapport quality-price Romania has stopped being an attractive touristic market

To stand up for these there is the unjustified ample list of the weak points of the tourist sector at national level: the reduce standards of the substructure in tourism, the poor quality of accommodation and of the other services connected to it, the basic undeveloped substructure, the missing of sport tourism capacity, the insufficient promotion of the tourist products, nationally and internationally, as much as at regional level: reduce number of tour-operators, low number of tourist and cultural events, a too much weight between the ways of tourism of the social tourism coming from the state.

From the point of view of the rapport quality-price Romania has stopped being an attractive touristic market

In this context a reorientation of the strategies of touristic structures amelioration on the basis of a socio-economical analysis at the national level and the identification of the major tendencies of the sector are to be realized. It is also obvious that besides the development and modernization of a rich and competitive touristic offer we need measures of improvement and development of market and advertising

activity, of integration in the global tourism, of ensuring a proper legal code and a stimulating and stable financial-fiscal area.

Developing a regional tourism policy. South West Oltenia Region

Factor conditions form the basis for creating or enhancing the competitive position of a destination. They comprise 'inherited, endowed or basic' factors as well as 'advanced factors' such as that created by investment. These factors are important where the relative abundance of natural, and cultural resources, capital and infrastructure resources and human resources compared to other competitive destinations are crucial to tourism success.

The factor conditions then in turn lead to an assessment of market size and structure and an assessment of the demand conditions the destination is experiencing. Consumer sophistication not only improves the demand conditions, but positively influences advanced factors, and firm strategies.

Firm strategy and the degree of rivalry between regional companies also play important roles in the development of regional competitive advantage. Cost leadership, differentiation and focused cost or differentiation in market segments are the generic strategies used by firms. Porter has been strongly criticized for a lack of attention to the dynamics within the firm, a 'resource based view' critique. Assessing the goals and strategies required to conduct a business depends upon leadership and the internal structure of the organization concerned. Assessment of the degree of rivalry assists in determining whether a competitive or a cooperative culture exists between firms in the industry value chain. The nature and existence of regional champions, whether the region's industries are competitive or monopolistic and the rate of formation and failure of new business enterprises, along with the government's attitude to intra-regional, inter-regional and international competition are all significant features of this Diamond attribute.

Increased levels of quality from demanding tourists, along with the location of **related and supportive industries** such as hotels, restaurants and the entertainment sector (food, fashion, culture, sport, banks, personal services) lead to the destination improving its competitive positioning. It seems to be this attribute that has most to offer our research. All four attributes contribute to a destination's level of competitiveness and help to provide an overview on the nature of competitive advantage in regional tourism. To supply a facility or a quality service for tourists is a fundamental part of a product development, especially when dealing with smaller and less accessible market fields. In these circumstances, the more the touristic products is of better quality, the more satisfied the tourist is of his experience during the holiday and the more possible it is for him to stay longer, to come back and tell others about this area and be concerned with local inheritance.

In order to be effective, the quality has to be provided for the entire touristic chain, from the first marketing messages, to supply, accommodation, food, orientation, town planning, etc. Each of these products can partly contribute to the visitor's general satisfaction. Consequently, if a product is of less quality, the tourist's level of satisfaction will decrease. This proves the need for a well organized and coordinated touristic strategy, for encouraging all the partners to work together for increasing the general quality of touristic destination and for making sure that this quality is maintained and if the case, increased while tourism is developed.

Every strategy should have an objective for the tourism kind it wants – who wants to draw, who has benefits on local plan, how will it interact with the other economic fields and natural and cultural resources. This should be decided after the dialogue and potential groups of trustees in order to make sure that the objective is both achievable and operational. Obviously, for an area intending to use its cultural and natural resources for tourism development, should be based on the „three” pillars of sustainment.

Sustained tourism:

(according to the European Agenda 21)

Economic sustainment:

- Competitive enterprises and tourism
- Manpower availability and necessary production resources
- Economic cohesion and welfare
- Annual income

Ecologic sustainment:

- Production patterns and favourable consumption for the surrounding environment, along the entire touristic chain;
- Sustained management and natural resources preservation as a basis for installing tourism and its activities;

Social and moral sustainment:

- New jobs (number, quality, competence and equal opportunities);
- Social cohesion and justice;
- Tourism for everybody
- Quality tourism; money value and respecting tourists' interests
- Contribution and humanity development (peace, knowledge and education)
- Ethical respect and behaviour regarding population and individuals confronted with tourism

One of the keys for developing a tourism policy is finding an adequate balance between the tourists number for this area and its absorption capacity. If the number of tourists is too low, the profit can be too small in comparison with the necessary investment, if the number of tourists is too high, the tourism will end-up by destroying the thing that has drawn visitors from the beginning. Overcrowded places lead to the destruction of the surrounding environment, dismemberment of local communities, reducing the visitors' satisfaction and maybe low profits.

The capacity of absorption has influences upon several levels: ecological, social and even psychological. Sometimes, these different elements influence each other – a degraded area, for example, will create the impression of overcrowdings. Still, inevitably, we have to take different subjective decisions since it is almost impossible to draw-up a pure objective, taking into consideration all the complex interrelations. This is valid especially for the social and psychological absorption capacities, which can be substantially different in accordance with the persons involved.

Still, there are some general guidelines for certain fields. For example, in the case of **environment capacity** of a new destination, we have to take into consideration the following:

- the size of the tourism area (for example: 100 ha of the 10.000 ha from the total available).
- environment sensibility

- distribution patterns for the savage fauna (far away or in a low extension specific area for reproducing or feeding himself?)
 - behavior sensibility of target animal species (low or high tolerance to human presence)
 - traffic rushing estimated levels along access routes.
The capacity of the area to face floods and pollution.
- The social and psychological factors include:***
- acceptable visualization patterns (an uniformous distribution or concentration is acceptable)
 - choice visualization (there will be few places to visit or will we have the opportunity to choose the places to visit?)
 - visitors' satisfaction levels (visitors' opinion about the respective touristic objective)
 - tourists' motivations
 - landscape topography
 - the report between the tourists and the number of inhabitants at that time.

Once estimated the possible number of tourists and the maximum absorption capacity, it should now be possible to establish a target regarding the number of tourists as a whole. Its purpose is to guide those involved in tourism business towards the target they should establish and give them an indication for measuring performances. While destination develops it will be necessary to make a continuous revision and adaptation of the objective.

The general objective will help us establish the type of services and facilities. During the situation analysis, we have to clarify what is convenient and where, what exists, and which aspects are in the category « what we need », rather than in the category « what is nice to have ». The first category should be considered a priority since it is « the main engine » of the touristic product. It would be ideal that these priorities be established and constantly assessed so that everybody focus on the same purpose. Then it will depend on the individual trustees to decide which options are more attractive for them and which require a commune effort.

The following elements regard the different facilities and services to be analyzed when wanting to build a strategy in the field of tourism:

The main attractions: the main attractions are those drawing people to that area from the beginning and make their holiday pleasant once they are established there. Thus, they are a vital component of the touristic product in general. It is important to make sure that, in general terms, there is enough diversity, but also a critical point of available attractions. This will not only influence the people's decision to visit the area, but will keep the tourists busy for as long as possible, will intensify their experience and hopefully will encourage them to come back. This means offering them both minor and major attractions. The major ones are a clue point of the area (for example a national park), but require a higher investment, which will later helps us diversify the offer, and its maintenance will be less costly. The South-West regions of Oltenia has numerous elements which can be considered attractions:

- the high diversity of the touristic offer: forests and national parks with various flora and fauna, mountains, caves, uncontaminated rural areas, mineral waters, thermal resorts, fishing and hunting, cultural attractions
- folklore and traditions, local natural products based gastronomy

- the second region in Romania from the point of view of old monasteries (ecumenical tourism)
- the region is rich in mineral waters (balneal tourism)
- agro-touristic board houses
- cultural and historical vestiges on the territory of the region
- the existence of a big number of natural parks
- with all these advantages, there is also a considerable difference between the touristic potential of the counties in the south and north of the region.

Accommodation and other adequate facilities: Once more, the analyzed situation and market studies, will help us highlight different services and facilities that have to accompany main attractions. This will help the private field in establishing the facilities that have to be developed and increased, be it a hotel, a campus, holiday village or restaurant, bar, souvenirs store, etc. regarding the existence of facilities, there are difficulties in the area of Oltenia due to a limited culture in the tourism services and social tourism preponderance (for elderly people) subventioned from the state budget. We also see an insufficient promotion of manually manufactured products (including: low distribution, weak visibility for students).

Infrastructure: It is often necessary to improve the general infrastructure of roads, bikers route, direction indicators, facilities for commune transport in order to make sure access to different attractions, and in the entire area is adequate. This is the local authorities' responsibilities but it would be useful to discuss with trustees and local population, because access routes have a multipurpose which is equally important for the entire local community. Oltenia tourism infrastructure has low standards, low accommodation and underdeveloped basis infrastructure. Important problems come from delays in privatizing the tourism utilities and the lack of sport tourism capacities.

Information and interpretation: Access to different types of services should be completely provided. Tourists have to know what tourists facilities and services include and be given the opportunity to learn more about the area characteristics and traditions. This involves two communication forms:

The first one provides main characteristics, easy accessible ones, precise and easy to use for the consumer, to help visitors to orient themselves and tell them about the attractions in that area. Every individual facility should take into consideration some forms of information on the attractions in that area. Every facility should take into consideration some information forms like „small butterflies”, internet websites, for advertising itself, but it is also useful to have a brochure or a touristic guide with an abstract of different attractions, events and facilities offered by that destination. In order to be attractive, they should provide more than a list of addresses and schedules for different attractions. Well presented brochures, which give a charm to the area and different attractions are chosen and used (and even taken home) and consequently the financial investment is worth it.

The way to obtain these information by tourists is also important, sometimes it is more adequate to have a central place with a physical existence, like for example a touristic information centre or kiosk, where brochures, maps, touristic guides can be purchased and additional guidance is provided. Thus, it is possible for different touristic attractions to behave as an information centre. Anyway, it is important to make sure that tourists are given all the facilities to get this information.

The second communication instrument is based on interpretation, opposed to information. The adequate interpretation helps visitors explore and better understand

the places they visit. In this way, tourists have more experience so that their visitation becomes more than a simple trip to see the landscape. The interpretation can be made in several ways. The clearest is made through exhibitions, parades and individual interpretation elements. Generally, the more interpretation is personalized, the more efficient it is. Still, there are more often discussions with a guide.

Regarding information in the area **Oltenia** is characterized through an insufficient promotion of tourism in comparison with the other regions in the country and the existence of very few operators. A problem is also the insufficiency of education units specialized in tourism in the area. Efforts have also to be made for establishing regional touristic information points.

Legislation: Finally we have to take into consideration that it is necessary for an additional legislation to reinforce certain aspects connected to tourism development. For example, environment legislation is essential for defending natural resources against negative impact, from tourism or other activities. It is important to be an adequate legislation for constructions which are not in accordance with the whole image of that place. It will assure us that other used fields are sensitive at the tourism requirements.

Another key-component of any tourism strategy should be **marketing and touristic products promotion**, and destination as a whole. Even the most impressive attraction will fail without an adequate promotion, valid especially for those institutions proposing to draw specialized markets. Because marketing is such a complex subject, it is almost worth it a personal strategy for helping planning, coordinating and investing in different necessary activities. Only then it will be able to work at the level of industrial touristic facilities, and at the level of the destination.

Tourism already addresses to special market segments, which means that the marketing strategy should be directed to these tourists types. Market studies create a profile of visitors interested in visiting that area and useful for identifying the best communication channels with tourists and guiding towards an adequate image of the destination. Because the most part of tourism is passing, like expectations, experiences, feelings, emotions, it is important to focus on developing an adequate image for the area, which will help us encapsulate some of these senses and therefore increase the general attraction of the destination.

Studies can be included in promotional materials, which can bring practical information to possible visitors. That is why it is very important to make sure that the material is precise, well drawn-up (without too many superlatives) and fixed at the adequate level for making them attractive for the audience. This will assure us that people will not arrive with expectations that cannot be met, and will most probably be disappointed by the experience. The best reputation is that built by being orally transmitted, recommended by marketing managers.

We have also remember that a reputation is not built over night, five years may pass until the marketing strategy begins to bring profit. Consequently, the strategy has to be seen as a long term activity in order to be revised and updated constantly in compliance with the changing needs of the visitors' feedback market. This also means that a considerable merit belongs also to the establishment of a tourism strategy that would aim for the tourists, even after they left the place. This helps to accumulate faithful clients and encourage repeated visits.

Promotional techniques. There are different distribution channels to explore for promoting touristic destination.

Websites are more and more known nowadays and are ideal for reaching an international audience, especially for the newest, smallest and furthest destinations which do not have the necessary budget (or even a market) for promotional campaigns. They can be used both at individual business level and at the level of destination, but require a certain expertise to make sure that it is often updated.

Specialty newspapers and magazines are also ideal for reaching different markets – their leaders already aim towards those types of tourists that the area wants to draw, although they are more receptive for commercials about a destination they are interested in. Encouraging entries towards independent guides is also useful. Finally, if the touristic product is well specialized, it can be proven that the investment to invite journalists to these newspapers to write articles on their experience is worth it.

Commercial fairs are the most classical forms of promotion. Anyway, for many destinations their use can be limited in comparison with the necessary time and investment. Commercial fairs are useful only for drawing intermediaries, like tourism operators, etc. Only a small percentage of the final consumers (tourists) have their decision based on information at a commercial fair. Still, for international fairs it is probably more efficiently to see whether they want to included destinations in their exhibition. In this way it is therefore convenient to look for more specialized fairs than the ones focused on national or regional audience. Here, the audience is more concentrated and limited and therefore, more probable to be receptive to a new touristic or more specialized destination.

Finally we have to talk about the cyclic nature of tourism. A touristic product does not follow the standard, linear route of a product development, from the concept, development to the market exit. There is a continuous need to form, adjust and adapt different products and make sure that tourism is maintained dynamically and well adapted to the other economic fields.

With a 54,7% rural population and an agricultural area of 1818878 ha of 2921169, Oltenia has to give a special interest to promoting tourism for generating jobs, and thus contributing to improve the region economic performances. The South-West Region of Oltenia has a valuable and rich natural potential, which, if capitalized, could make the region more competitive on the market of internal and European tourism.

It is therefore revealed the need and opportunity it include the regional strategy for tourism which could develop:

- identifying all the touristic objectives;
- assessing or reassessing touristic objectives based on real value considerations;
- hierachyzing them as an economic support opportunity and protection;
- recommendations for promoting or improving actual promotion;
- appreciating economic influences in the adequate organized capitalization through tourism;
- the number of people in tourism and their education level.

The touristic product quality is influenced to the highest extent by the level of education and professional training of the personnel engaged in tourism, which establishes the quality level of direct services.

From the suppliers agreement and careful analyses upon the level of quality evolution of tourism services, it is established that the evolution is very slow, generally as a privatization measure. Until the patrimony aspects are modified, in the sense of

turning the property balance in favor of the private one, we can rely only on real quality regulations and control actions organized especially at regional level.

Conclusion

The regional development strategy, especially for the regions including real value touristic objectives, has to take into consideration the fact that the increase of touristic flow, of any origin, positively influences regional economy:

- directly, through the cash come from touristic consumption (house, meals, taxes, shopping);

- indirectly, through the local bilateral cultural contact and influences, by knowing local economical values and possible business opportunities, services employment, creating a favorable image, civilizing infrastructure.

It is possible for an already established destination to want to focus on a natural and cultural tourism or on those areas that have declining for the past few years. Market studies and SWOT analyses are just as relevant in this stage just like in the beginning, as long as they help creating a clear image about the area tourism and any possible problems. Only then it is possible to find solutions or ideas for change, extension, consolidation. Touristic destination management is a continuous process requiring that all the development process stages, for the destination be revisited and touristic products be reliable and attractive.

The regional tourism from Romania will benefit in the next period from almost 500 million Euros, through the European Regional Development Fund. The following accommodation structures will be able to benefit from these structural funds: hotels, motels, tourism pensions, camping places, huts, and hotels for young people. Exception from the funds makes the restaurants, bars, discos and casinos which are outside the accommodation places. The maximum period for implementing a project is 23 months. In the case of the accommodation structures the total cost of a project has to be between 200.000 Euros and five million Euros, and for tourism leisure structures the costs of the project have to be between 200.000 Euros and 20 million Euros.

The current problem from this field is the limited access to the funding programs because of the insufficient promotion of these programs in the different environments from where the possible applicant may pick up information. One can also add to this a lack of interest on a national level regarding the development strategy of the tourism and of using these funds. And this thing happens under the circumstances where experience shows us that rural tourism may be profitable, if we take into consideration the fact that almost 20 million Euros were drawn by the enterprisers that build pensions for agro tourism with the help of SAPARD.

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CONSIDERATIONS ON THE RETAIL CREDIT MARKET IN ROMANIA

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Abstract: The rhythm of significant growth of the credit, as well as the conduction of it preponderantly towards the population represents characteristics met in Romania until middle of 2008 year. Before these evolutions, the Romanian banks appeared to have found the necessary instruments for a corresponding management of the crediting process. Since October of last year, the event fund the consequences of international financial crisis, witnessing a phenomenon to halt the credit. Among the products that I estimate that the Romanian banking sector will preponderantly use are: credits designated to the acquisition of goods of long term use; credit cards; mortgage credits; derived financial instruments.

JEL classification: G01, G21

Key words: retail, risk, profit, market, international financial crisis, new banking products

If a few years ago the big European banks were trying to orientate towards more complex structures of financial-banking entities, meant to ensure a total coverage of the clients' necessities, these have gradually reached to the conclusion, certified by practice, that reveals the necessity of concentration upon the basic activities with the highest rank of performance and, implicitly, profitable. A lot of European banks have reached the conclusion that the activity of retail fulfills all these characteristics, being, in crisis conditions, an essential protection for the population's incomes, and, in conditions of economic boom, a gold mine that possesses an important potential, not yet exploited.

The implication in the retail activity, even on certain segments or market recesses, including of some banks with well known dispositions for the corporations' sector, may represent another signal of the tendency of the last years, reflected by the middle of last year, when the international financial crisis are felt in our country.

The standardization of European banking legislation at the accountancy level, of regulations and even of banking risks, by the so called Basel II agreement, could ensure the supplementary elements for the reposition of the strategic priorities in order to continue the banking consolidation, which will determine a special increase of competitiveness, with implications over the trend of interest rates. The reduction of the neat margins from interests obliges the retail banks to create solutions for the global improvement of the incomes by other profitable activities, a better control of costs¹⁸.

¹⁸ Dănilă, N - Retail banking, Publishing House Expert, Bucharest, 2004, pg. 157

Both in Europe and Romania, the concept of banking retail is considered to be crossing a period of consolidation. Retail banking or banking activity with physical persons refers to the non-commercial operations realized by the population regarding the administration of own resources, the realization of cashing and payments in cash, operations of the account, the contracting of credits or guarantees for personal scopes, electronic payments, operations on the capital market, the offering of banking conciliation.

Any Romanian or foreign physical person, resident or non-resident in Romania, of at least 18 years old and who fulfills the following main cumulative conditions, can benefit of credits:

- to be employed with working contract for an undetermined period of time and to realize concrete incomes, with permanent character, which shall ensure the monthly payment of the credit rates and the afferent interests;
- to open a current account to the bank in which shall deposit initially the minimum solicited advance as own source, if it is the case, and, subsequently, the total monthly payments to be reimbursed;
- to guarantee the reimbursement of the solicited credits and the afferent interests with the incomes that realizes and, by case, with real and personal guarantees;
- to accept that the payments from the credit account be effectuated by transfer (an exception are the treasury credits);
- not to have debts or other unpaid obligations that are due towards the bank and tertiary;
- to participate at the realization of the project (business) with own sources whose minimum quantum is established by the bank for each category of credits (the proof of constitution of own resources can be done by the solicitor either by account extract or partial payment in advance of the pro forma invoice).

The retail clients who can beneficiate of products of credit type are: physical persons, resident or non-resident, of at least 18 years old; independent physical persons and family associations authorized to develop economic activities independently, in all fields, jobs and occupations, according an authorization; physical persons who exercise professions according some special laws.

The activity of retail banking presents a series of characteristics, thus:

- it ensures the services for a large number of clients, a very large number of operations which imposes increased operability and simple working tools;
- it presupposes the adoption of some special politics by the banks who effectuate such operations to attract clients;
- the operations have commercial character.

The activity of retail banking is profitable enough; due to the big volume of products and services offered there are cashed incomes coming immediately from commissions and interests; the risk is more reduced than in the case of juridical persons. In what regards the products and offered services, it is observed lately a personalization of them, launching product packages and services that are the object of some marketing actions through which they want to conquer new segments of market. Also, there have been transformations not only in the field of dynamics of the credit granted to physical persons and the number of solicitor clients and credit beneficiaries, but also in what regards the diversity of the granted credits, the operability in granting, the way of guarantee, all these movements being in favor of the credit beneficiary. Thus, the system of gages was replaced, where it was possible, with the guarantee of the

insurance companies pleased by the bank, the risk of crediting being sometimes overtaken almost integrally by the insurance-reinsurance companies, the bank benefiting of a guarantee that can become immediately liquidated. In this way it is solved the problem of non-performing credits placed to physical persons, that no longer engrave the bank's portfolio, does not require provisions and does not loads the costs of exploitation.

Also the structure of credits has become enough diversified. Mainly, there are the following categories of credits granted to physical persons:

- *credit of consume* - designed for the acquisition of goods of long term use, vehicles, for temporary needs, vacations, studies, medical treatments, representing t present the most solicited category of credits. Due to the number of scopes that it offers and to the opening of the market it is estimated a strong competition from part of the local and foreign banks;
- *mortgage credit* - designed for the construction, extension, arrangement, consolidation or buying of accommodations and lands by mortgaging them in favor of the bank, the beneficiary becoming owner only after the integral reimbursement of the credit and payment of the interest. For the credit granted there will be guarantees that will cover its level and the afferent interest to the first year of crediting;
- *credit for activities with productive character* - designed for the acquisition of equipment for private offices, small commercial stores, agrarian machines for the small producers and other activities with productive character. Though they should be very solicited because help to obtain some incomes and so relief the debtor's task, at present these credits have a reduced poise due to the period of economic involution, of the inflation and, moreover, of the interests and big commissions of the banks;
- *the credit lines granted by credit cards* - which are granted according the creditworthiness of each client, according a certain graphic, until there are honored the payments realized by credit cards, even if there are not available in the account. This form of crediting has developed more thanks to the operability in granting and the easy way f using the payment instrument. The incomes obtained by the banks are substantial because of the debtor's sold, exactly in the frame of the graphic, there are perceived very big interests.

The credits granted to the population have had a reduced poise during 1990-1999. The causes were many; among the most important we mention: the heavy access to these credits, the norms and conditions of crediting were inaccessible for a large number of the population, as well as some contracts of exclusiveness that were not legal according the norms of the market economy. The reduced level of credits granted to physical persons was also maintained during the years 2000 and 2001, so that starting with the year 2002 a sudden change to better of the credits granted to the population is registered. A real boom was registered in the year 2003, when the credits granted in lei on mid and long term raised approximately four times than the previous year, respectively 4.5% in the year 2003 than 1.6% in the year 2002. this spectacular evolution was due to the elimination by the B.N.R. of some restrictions and improvement of the conditions for granting credits, from the rise of the poise that the sum to be reimbursed represents in the total of the debtor's incomes when giving up to the guarantor; there were also extended the expiring terms, having as a result the diminishing of the monthly rates to pay.

The significant expansion of the non-governmental credit from the last years was sustained, to a great extent, by the upward dynamic of the credit towards the population (table no.1).

The base from which the growth started (177 millions of euro at the end of the year 2000) was very reduced than the level registered in the same period in other central-European and east-European states (over 8 billions of euro in Czech, 1 billion of euro in Slovakia and over 18 billions of euro in Poland), as well as towards the volume of the credit granted to companies in Romania. The reduced dimension of the credit granted to the population is also relevant by the poise in total of the non-governmental credit, in 2000 this being only 5.7%.

Table no.1. The evolution of the credit granted to the population

	2001	2002	2003	2004	2005	2006	2007
Rhythm of nominal growth	45.2	87.6	161.5	258.9	58.3	52.3	71,0
Rhythm of real growth	3.2	44.6	122.0	214.6	44.8	44.7	60,6

Source: Financial Stability Report of the B.N.R., 2008

From the point of view of the financial intermediation, the banks are the main intermediaries that ensure the financing of the population in proportion of 95%. In the conditions in which, during the last years, the credit granted to companies has had a positive evolution, but more reduced in comparison with that of the credit granted to the population, the structure of the non-governmental credit has modified significantly, at the end of the year 2004, the poise of the credit for the population in the total volume rising up to 28.4%. The credit granted to the population continued its expansion coming to represent 48.0% from the non-governmental credit at the end of the year 2007 and has maintained to a higher level than the credits of production or those of investments of the companies.

What is to be remarked is that in the case of Romania is the sudden change of strategy – if in the other east-European countries the orientation towards the retail did not realize so rapidly, in Romania the poise of the credit for the population in the non-governmental credit has increased with 21.6% in the period 2001-2006.

If we take into consideration:

- a. the situation from the euro area, where the medium poise of the credit for the population in the non-governmental credit was of 50.3% in December 2005;
- b. the fact that in Romania the poise of the credit for the population in the GDP was of only 6% at the end of the year 2005, while in other central and east-European countries was superior as far back as 2002 (Hungary 6%, Poland 7%, Czech 8%), we can say that the market of the credit afferent to the population from Romania was far to be saturated.

The volume of the credit for the population has increased significantly starting with the end of the year 2002, the component with the biggest dynamism being the credit for consume. This was represented approximately three quarters from the total of credits for the population, situation that is obviously different from that of the countries from the euro area, where two thirds are designated to the immobile financings.

The credit for consume has raised with 93.7% (84.7% in real terms) in 2005, with 19.8% (12.5% in real terms) in 2007 and with 37.6% (29.2% in real terms) in 2008.

The mortgage credit has increased with 53% (45.9% in real terms) also in 2005, in comparison with 57.4% (44.8% in real terms) in the previous year, but in 2007 and

2008 were registered increases of 88.6% (77.1% in real terms), respectively 49.7% (40.6% in real terms).

The credit for consume was dominated by the component in lei, whose poise registered a light decreasing tendency in 2008 than 2007 (52.7% than 58.3% at the end of the previous year), in exchange, in the case of the mortgage credit, the majority position continues to be held by the component in foreign currency, the share of loans in euro was approximately constant (76.2% in 2006, 76.4% in 2007 and 75.6% in 2008).

The increase of the credit offer in this period was explained not only by the expansionist politics within this domain of the credit institutions, but also by the proliferation, in the last years, especially by the practice by the big stores of offering goods of long term use in the rate system. On the side of demand, the explanations have origin in the increase of the purchase power of the population, the modification of the consume behavior, as well as in the low level of endowment with goods for consume.

A more frequent phenomenon in the last years on the Romanian market was constituted by the continuous extension of the maturity of credits granted to the population, as consequence of the unprecedented development of the mortgage credit and of the credit for acquiring goods of long term use. This expansion can also be in some measure artificial, and considered to be one of the solutions identified by the banks for elude of administrative measures impose for the limitation of the debt service of the population according the available income.

In what concerns the denomination currency of the credits granted to the population, it was remarked the preference for foreign currency. The orientation towards the foreign currency was occurred:

- on the background of the maturity expansion of the credits granted to the population;
- as a result of some interests more reduced for the credits in foreign currency than for those in the national currency;
- as consequence of the appreciation of the national currency in the period 2006-2007;
- thanks to the relative euro-icing of the prices in some sectors (the real, of the transportation means, etc.).

The rhythm of increase of the credit for the population on long term, determined by the process of convergence to the EU, corroborated with the growing needs for goods of consume and real estates of the population, was induced a rhythm of significant growth afferent to this segment of crediting.

In the context of globalization, at present, the European banking system is yet influenced by the problem of mortgage credits sub-prime from the USA. The increased poises of the non-performing credits with high level of risk, according to which there were granted titles of value, has determined a crisis on the financial markets, enhancing the fears for the instability of the global financial sector and the toughen of the crediting conditions, which led to the intervention of the central banks on the financial markets in order to avoid a crisis of liquidities.

Although the estimate that the European markets, and especially the emergent markets, will overcome with success the crisis from the credit sector extended to the international level, taking into account the limited exposure on the mortgage credit market with high risk from the USA and the increased economic rhythm, however, by the consequences of international financial crisis have been reflected on a global scale, including in Romania, through the parent banks with foreign capital, which have drastically reduced funding, and by compression of export opportunities in the countries

directly involved. Few investors are convinced that the problems appeared on the market of mortgage credits from the USA have come to an end too soon, the analysts warning about the risks of the economic growth. The volatility on the financial markets was affected the global economic growth, because the effects of slowing the American economy was perceived in the commercial exchanges, thus other economies was also be affected. The countries with emergent economy have dealt well until middle of 2008.

The market crisis had three main components:

- the reevaluation of the credits' risks;
- the testing in crisis conditions of some new components of the market of financial instruments on the basis of actives;
- the growth of the fears regarding the risks recorded by partners.

The lack of transparency caused the appearance of fears that also other institutions could suffer, leading to the appearance of the liquidity crisis on the market.

Romania does not confront itself at this moment with the risks that could generate a financial crisis such as that from the USA, determined by the cheap mortgage credits, but the rapid growth of the credits granted to the population could lead, in the previous period resulted, to the increase of the number of non-performing loans, thus rising the credit risk, against the improvement of the banking surveillance.

The investigation of the financial behavior of the population and the market evolution of the credit from the countries new members of the EU concluded in the case of Romania the following:

- Romania is the country with the lowest level of debts per citizen from the region, but also with the lowest level of financial income;
- the mortgage credit and the immobile one represents only 25% from the total of Romania' s population debts, less than in the other countries from the New Europe (it includes four states from Central and East Europe, new members of the EU and other candidate countries or oriented towards the EU);
- the sustainability on kid and long term of the growth of the market of credits for physical persons depends on a good administration of risks, at the banking system as well as at the level of the macro-economy;
- at the international level, during the last decade, there were structural changes on the credit market that were reflected in the growth of relevance of the retail market by the expansion of the credit for consume, followed by a rapid growth of the market of immobile and mortgage credit.

The analysis according to types of obligation instruments enhances the existence of some structural differences of the analyzed markets. Unlike the euro area, where the mortgage and immobile credit holds the biggest poise in the volume of debts of the population (70% in 2007), in the area on new EU members the credit for consume contributes mostly to the population's debts, but its relevance diminished from 80% in 2000 to 54% in 2005, on the basis of the more rapid medium annual growth of the market of mortgage credit (49% than 18% in the same period).

The emphasized development of the credit market in the area of the New Europe is due to some factors of demand type, as well as to some factors of offer type.

The analysis of the relationship between the dynamic of consume and that of the credit emphasizes the existence of some constraints of liquidity in Romania, a sign of a crediting potential generated by the necessity to consume satisfy. The analysis of the factors of the micro and macro economy does not allow obtaining a stable

conclusion regarding the sustainability on medium and long term of the expansion of the market of retail credit. What can be said, though, is that there are predicted major risks for certain countries (Romania, Hungary, Bulgaria, Czech Republic, Poland, Baltics) there are some sources of vulnerability (big foreign currency exposure, the growth of the debt service, the enlargement of the external deficits) that can transform into major unbalances.

Romania remains the country with the lowest level of financial income and debt per citizen from the region. At the end of the year 2007, the financial income of the Romanians represented only 38% from the GDP, than 75% which was the average grade in the area of New Europe at that date, while the financial debt reached 12% in comparison to 21% in the area of New Europe.

With a medium annual growth of 18% during the last 5 years, in 2005, the mortgage and immobile credit represented only 25% from the total of debts of the Romanians. This expansion was possible as a consequence of the existence of a reduced level of debts, but also on the basis of the growth of incomes and the positive expectations regarding the future incomes.

For the period of 2007-2008 it was registered a medium annual growth of the financial income of the Romanians of 17% (in comparison with the average grade of 10% from the area of New Europe) as a consequence of the preferential growth for the market of mutual funds and insurances. At the same time, the volume of debts was raised, on an average of 22% per year (than 19% per year from the area of New Europe), the mortgage credit increasing gradually its relevance. Increased emphasis of indebtedness was not devoid of risks, in particular macroeconomic nature (increased exposure to currency and current account deficit), specific periods of transition. Analysis of the relationship between the expansion of retail credit growth and current account deficit indicates, indeed, there was a significant correlation, particularly due to imports of durable goods.

Although the granted credits of the economic agents (including non-residents) has an important role in the deterioration of the deficit of current account, because it generates the growth of the production capacity.

In conclusion, the development of the market of retail credit until the middle of last year reflected, generally, a phenomenon of balance, the expansion of this market from a level almost neglected five years ago to the realization in the context of improving the financial conditions of the population.

After that date, the balance has deteriorated rapidly under the impact of international financial crisis and its consequences (the crisis of liquidity, volatility of securities courses, exchange rate instability, decreases in real estate prices, the compression market, particularly in construction and cars).

In order to reach a full efficiency and to better respond to the needs of its clients, we consider that organization of the Retail Bank must be based upon three key functions: Distribution, Products and Markets.

This pole concentrates the marketing activity (the analysis of behaviors and expectations of the clients, the observation of the market and competitiveness, the creation of new products) and the commercial aspect (the definition of the commercial politics, the establishment of the objectives and their realization). Among the main objectives of this team there are the adaptation and enrichment of the product offer (with products such as leasing and intern factoring), as well as the development of the

alternative channels from the perspective of realizing a multi-channel bank. The reduction of incomes can be compensated by the growth of the volume of sold products, especially in the field of investments, since over 70% from the profit of financial services of retail type from Europe result from economies and investment products. Thus, in order to increase the report between incomes and costs, the banks from Europe that offer financial services of retail type should:

- reduce the basic costs of the banking services of retail type in order to maintain the level of profitability estimated to an average of 10 - 15%;
- to excel in the financial management in order to attract and maintain the most important clients.

The problem consists in improving the relationship with clients to a superior level of facilities offered by the private banking, without raising the costs of distribution in such a way to generate new incomes, while the affluent volume of clients require more and more products. The current process of development, the communication systems and of training the selling force must evolve in order to keep the pace with the introduction of new products.

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THE BEER BRANDS ON THE MACEDONIAN MARKET: HOW ARE THEY PERCEIVED?

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Abstract: The aim of this paper is to present the perceived position of the beer brands (domestic and foreign) on the Macedonian market. There are lots of beer brands offered on the Macedonian market which indicates that the competition is quite big. The competition is especially fierce among few of them because respondents have very similar perceptions about those brands. To have knowledge about the perceived position that product holds is crucial for the company because it is very important the perceived position to be identical with the desired position, otherwise (if the perceived position is worse than the planned) the company must involve itself in the activities of repositioning.

JEL classification: M00, M31

Key words: positioning, positioning map, beer, perceived position

Introduction

The positioning process encompasses the development of positioning map which gives clear picture of the position of each company (product) in the customers' eyes. Special softer has been developed in order positioning map to be constructed as a very helpful tool for the managers for defining as much better strategy as possible. But, the whole process doesn't stop after the construction of the map, it proceeds with map interpretation for which integral knowledge of the marketing-managers is demanded.

There are several positioning maps that can be used by marketing-managers: perceptual maps, preferential maps and combination of the both (that take into account the buyers' perceptions and preferences as well). The paper gives an analysis of the beer brands in the R.Macedonia by creating perceptual maps based on the product's characteristics.

For the benefit of constructing a positioning map and in order to gather data about the various brands that are offered in restaurants and bigger supermarkets in the Republic of Macedonia, research was conducted about the most important characteristics of the brands that customers take into account when they make decisions which brand to buy and about the customers' perceptions for the beer brands in Macedonia. The first research showed that in Macedonia there are lots of beer brands produced by lots of producers, i.e. there is a strong competition in the beer market in Macedonia. By constructing the positioning map, a clear picture was created regarding the position of the beer brands as they are perceived by the consumers, from which it can be seen among which brands the competition is the strongest i.e. which beer brands hold similar position in customers' eyes.

The paper first focuses on identification and selection of the type of positioning map. Then, the research methodology is discussed - selection of the respondents in the survey, identification of the beer brands that are subject of evaluation, identification of the most important attributes for the customers when they decide which beer brand to buy and questionnaire design. After performing the survey the next step is construction of the positioning i.e. perceptual map using appropriate software. After this, an analysis of the map is performed and author's suggestions are given.

Literature review

According to Fifield (1998) market position of the company (product) refers to the unique (and differentiated) position that the company (product) holds in the customers' eyes. In fact, perceived market position refers to the external environment, market i.e. customers and competitors, or in other words position as it is perceived by the customers compared to the competitors. According to Porter (1990), to pursue a good strategy means to be different from the others by undertaking activities different from the competitors or undertaking similar activities in a different way. Namely, positioning is the process of designing image and value, so that the customers from target market segment(s) will understand (recognize) the company and its products compared to the competitor i.e. competitor's products in a way as the company wants to be perceived. And, as Fiefeld (1998) says, marketing is actually a battle of the products and companies for perceptions – marketing is not what the objective tests show what is best for the customers, but what customers believe is best for them.

According to Srivastava, Shervani and Fahey (1998) brands influence the competitive advantage of the companies. According to Ailawadi, Lehmann and Neslin (2001); Capron and Hulland (1999) and Sullivan (1998) brands are valuable intangible assets that can significantly contribute to company performance, but, in order to be successful, companies must differentiate their brands. Pessemier (1982), Wind (1982) and other authors claim that understanding brand differentiation is essential to formulation of strategies and other marketing activities. According to Shugan (1987) multidimensional brand differentiation and multidimensional mapping, whether perceptual or not, has had many applications in the marketing literature. Gavish, Horsky, and Srinkanth (1983) claim that multidimensional maps are valuable tools for making strategic marketing decisions. Hauser and Shugan (1983) use per dollar multidimensional maps to formulate defensive strategies. However, positioning maps have been widely used in marketing since the 1960s. According to Myers (1992) these first maps were of the "perceptual" type based on consumers' ratings of competing brands and positions objects in a cognitive space, and he claims that brands can be positioned in an affective space defined in terms of attitudes that people hold towards a brand category. Myers (1992) says that the most common map constructed for marketing planning process nowadays is the perceptual map and the most frequently used technique for developing such maps is discriminant analysis. Instead of "two-dimensional" maps, most companies use multidimensional maps in which competing products can be "positioned" in relation to one another. Tightly connected to positioning map is the brand positioning statement that expresses how the brand should be seen by external stakeholders and/or by employees. (Wallstrom, Karlsson and Salehi-Sangari (2008)).

In this paper by using software, complex positioning map was developed with two main axes (horizontal and vertical) and lots of supplementary axis i.e. lines that

represent characteristics of the companies/products. Gary, L.L, Arvind, R, (2003) use the following rules regarding the interpretation of the positioning map.

- Each line represents different characteristic (there are 14 characteristics analyzed and therefore there are 14 lines on the map beside the main horizontal and vertical lines (axis).

- The longer the line, the more important the characteristic is. The length of the line shows the importance of the characteristic presented by the line when interpreting the map.

- The lines that are closer to the main horizontal and vertical axis are more important in determination of the meaning of those two axes.

- In explaining the company's position, imaginary perpendicular line needs to be drawn on the map from the point that represents the company's position up to the line that represents distinctive characteristic. The smaller the distance, the more important the characteristic is in explanation of the company/product position.

- The distance among different products on the map shows the "perceptual similarities" i.e. how close or far the products are located in the customers' minds. The distance among them is smaller as the products are similar which means that the products are strong competitors.

Research methodology

Out of the various brands of beer in the market, 11 brands are analyzed (brands that were indicated by the random selected respondents in the preliminary conducted research, as brands that first come into their mind when the word "beer" is mentioned).

The research then proceeds with the evaluation of 14 characteristics of the beer as product characteristics relevant to the respondents who live in Skopje (in one particular municipality) from 18 to 50 years old. The choice of the age range from 18 to 50 years was made because in the Republic of Macedonia the sales of alcohol is prohibited to persons below 18 years of age, and people above 50 consume less beer due to the health problems that they usually face. On the other hand, according to the statistical data, people from 18 to 50 years are the biggest consumers in the Republic of Macedonia. The citizens of Skopje are the target group of the research because Skopje is the city with highest population density in Macedonia and the particular municipality (the Municipality of Aerodrom) was selected as a municipality with highest percentage of people who belong to the age group relevant for this paper (State Statistical Office of the Republic of Macedonia).

1. The preliminary research comprises 40 examinees (age 18 to 50) selected at the random, on two frequent locations (large supermarket and very well known restaurant and bar located in the previously mentioned municipally).

2. Firstly, the 40 examinees, met on the previously mentioned locations, were asked to tell the beer brands that first come into their mind when beer word was mentioned and to tell the most important attributes they consider each beer should have. After gathering valuable information about the brands and attributes that the respondents take into account when buying the beer, 11 beer brands were determined as brands that were going to be evaluated and 14 attributes were selected as a basis (criteria) for beer brands evaluation and as a basis for questionnaire design. Thus, based on interviews performed on 40 examinees, the determination of the key product's attributes (14) was performed as a first step in conducting the complete survey for this paper.

3. Moreover, 60 other examinees (who were met at the same locations) were contacted personally (face-to-face) and asked to fill in the questionnaire previously prepared.

4. In order to avoid greater complexity in defining the sample of beer consumers in the Republic of Macedonia only demographic and geographic criteria (age and location) were used.

From the explanation given above regarding the research methodology, it can be concluded that in the survey, 11 beer brands that can be found in the stores, bars and restaurants in the Republic of Macedonia were evaluated and the construction of the map and analysis was done on the bases of the evaluation of 14 characteristics relevant to identification of the brand position in the customers' eyes. The map in this paper showing the position of the beer brands in R.Macedonia is prepared by having in mind the analysis of the following 14 attributes (characteristics): bad label (regarding the design of the label), bad package, bitter taste, high percentage of alcohol, highly carbonated, foam at pouring, high price, high quality, nice color, popular among women, popular among men, bought for special occasions, too light, popular among working class.

On a scale from 1 to 9 the examinees gave their evaluation about how they perceive the stated characteristics for each beer brand separately, having in mind that the grade 1 means that the examinees agree with the postulate (at the least) and grade 9 that they agree the most i.e. they agree completely with the postulate. Afterwords, the answers were processed for each respondent separately and for all of them together (Table no. 1) and after that the perceptual map was constructed.

Table no. 1 Responses to the questionnaire regarding the beer brands' position in the Republic of Macedonia by 60 respondents

	"Amstel"	"Beck's"	"Bitolsko"	"Efes Pilsner"	"Heineken"	"Kenbach"	"Krali Marko"	"Laško"	"Skopsko"	"Zlaten Dab"	"Kamenitza"
bad label	7	8	4	6	8	4	4	6	6	5	4
bad package	2	2	6	4	2	6	7	4	4	4	5
bitter taste	4	4	4	4	4	4	4	4	6	4	4
high % of alcohol	5	5	4	5	5	4	4	5	7	5	4
high carbonated	4	5	4	5	5	4	4	4	6	5	5
high foam at pouring	4	4	5	4	4	5	4	4	6	4	6
high price	6	7	3	6	8	3	2	6	4	3	6
high quality	8	8	4	7	9	5	4	6	7	5	4
nice color	7	7	5	6	8	5	5	6	7	6	6
popular among women	5	5	2	4	5	4	2	3	4	3	6
popular among men	7	7	6	6	7	6	6	6	8	8	6
special occasions	5	7	2	5	7	3	2	4	2	2	3
too light	5	5	5	5	5	6	5	5	4	4	4
working class	2	2	8	5	2	7	8	4	5	6	4

Source: Data from the survey

Analysis of the map showing the position of beer brands in the Republic of Macedonia

The 11 brands analyzed in this paper can be classified as domestic brands (brands that are brewed and bottled by domestic brewing companies (there are three breweries in Macedonia located in the following cities: Skopje, Prilep, and Bitola) and foreign brands imported from abroad. (see Table no.2):

Table no. 2 Classification of the beer brands

beer brands	domestic brands	foreign brands
“Amstel”		√
“Beck’s”		√
“Bitolsko”	√	
“Efes Pilsner”		√
“Heineken”		√
“Kenbach”	√	
“Krali Marko”	√	
“Laško”		√
“Skopsko”	√	
“Zlaten Dab”	√	
“Kamenitza”		√

On the basis of processed data showed in Table No.1, the positioning map was designed (see Figure no.1).

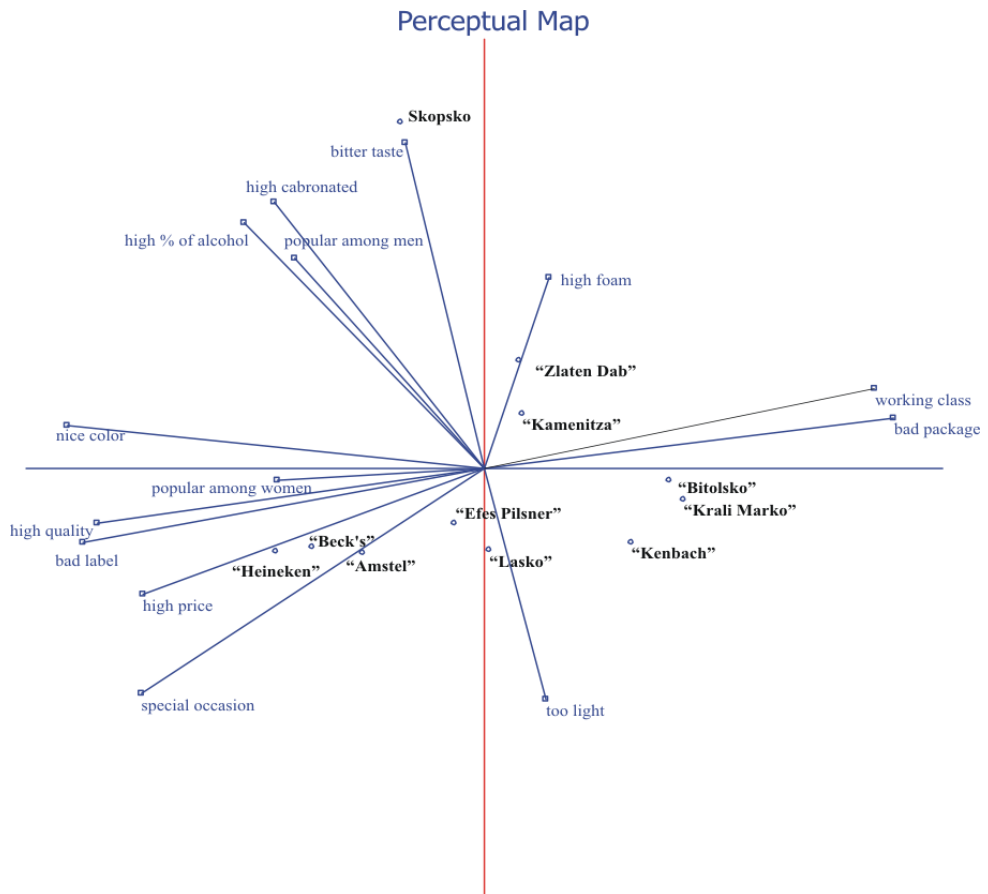


Figure no. 1 Positioning map of beer brands on the market in the Republic of Macedonia

Source: Data from the survey

Figure no.1 clearly shows that different beer brands hold different position in the customers' eyes, with remark that some of them hold very similar position that makes them strong competitors and some of them hold relatively isolated position without brand with similarly perceived position nearby like the brand "Skopsko". When constructing the map, 14 characteristics have been analyzed and presented by the lines in the map. Through analyzing the characteristics/lines the meaning of the vertical and horizontal axes was determined. Namely, horizontal axis represents premium/economy beer, i.e. the right side of the axis represents beer with high quality and high price or premium brand, whereas the left side of the axis represents beer perceived as a product with lower price aimed at people with lower income (economy product). The vertical axis represents light/bitter beer, with the upper end of the axis representing darker beer with bitter taste, whereas the lower end of the axis represents light beer.

It seems that "Skopsko" has the best position having in mind that there is no other brand nearby, and "Skopsko" is perceived as a beer that tastes bitter, as a highly carbonated beer with high percentage of alcohol and as a beer that is especially popular among male population. It is a beer that is perceived as a premium product rather than as an economic product.

The brand "Zlaten Dab" is perceived as highly foaming beer with bitter taste mainly aimed to attract poor people. In the positioning map it is located close to "Kamenitza" beer, meaning that both beers are close competitors because of the similar perceptions that customers have for the two.

"Bitolsko", "Krali Marko", and "Kenbach" are brands that are facing very big competition among themselves. They are all perceived as beers with light color aimed at the working class, with bad package design. It is symptomatic that "Bitolsko" and "Kenbach" are bottled by brewing company from Bitola (Bitola is the second largest city in Macedonia), meaning that two different brands of beer within one company are striving for the same position in the customers' minds, which is not a good solution for the Bitola brewery's market success. The brewery should take activities of repositioning of one of its brands in order to achieve different and at the same time better brand perception in the customers' eyes which will eventually result in company's better financial results. Bad market positioning of the products is one of the reasons why this brewing company is currently passing through difficult times, experiencing severe financial problems that make the company unable to keep pace with all the developments and changes on the market regarding business and marketing practice.

From the figure presented above it can be noticed that there is another group of brand beers with similar perceived positions. Namely, the brands "Efes Pilsner", "Laško", "Amstel", "Heineken", and "Beck's" are all beers positioned as premium beers with light color and bought and consumed on special occasions. Because of the obviously big number of beers that comprises this group, it seems that the competition among them is the biggest. This is the most obvious for "Efes Pilsner" and "Laško" brands (as a separate subgroup) and "Amstel", "Heineken" and "Beck's" brands (as a second subgroup within the main group). The perception of the customers that "Beck's" and "Heineken" are beers that are more expensive than others, correspond to the real situation since they are beers that are offered at higher prices on the market.

The analysis shows that "Skopsko" has the best position on the whole market as a premium product with bitter taste. Holding position as a premium beer with light color is good in general (because of the possibility premium products to be sold at

higher prices and consequently to be more profitable), but however, an additional effort is required mainly in the field of marketing in order for a company to survive and maintain its current favorable position on the market.

Conclusion

There are lots of beer brands produced by domestic and foreign breweries on the Macedonian market. Brands like “Skopsko”, “Zlaten dab”, “Bitolsko”, “Krali Marko”, “Kenbach” are domestic brands, while others are imported brands that are bottled abroad such as “Amstel” (Athens’s brewing company, Greece), Kamenitza (Bulgarian beer), Beck’s (German beer bottled in Kamenitza brewing Co., Bulgaria), and “Laško” (produced and bottled by Slovenian brewing company). Besides the 11 brands of beer analyzed in this paper, there are other less known brands that can be found in restaurants, bars, supermarkets, that compete with other beer brands for a better position on the Macedonian market. “Skopsko” beer holds the best position of all analyzed beers and is perceived as a domestic brand, well recognized by all Macedonian citizens as a beer that tastes bitter, has high percentage of alcohol, highly carbonated and especially popular among the male population. The “Skopsko” brand’s position is very favorable because it has no close and serious competitor (there is no other brand located near “Skopsko” on the map). Regarding the other brands it can be noticed that the competition is quite big among brands that want to be perceived as premium beers that have light color and are intended to be consumed on special occasions.

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THE SIGNIFICANCE OF CSR AND THE EFFECTS OF THE FINANCIAL CRISIS

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Abstract: The aim of this paper consists in presenting the evolution of the concept of corporate social responsibility (CSR). While many authors think that this is a relatively new concept, CSR is perhaps as old as business itself and in some societies one cannot do business without being socially responsible. In the second part of our article we will try to connect this concept to the implications of the current financial crisis.

JEL classification: G01, M19

Keywords: corporate social responsibility (CSR), strategic business, development.

1. Historical Development of Corporate Social Responsibility

The concept of CSR has become an increasingly important phenomenon in Romania and around the world. Due to the fact that this concept has been recently adopted in our country and it still poses various questions, we would like to look upon this concept from a historical point of view and to provide a diachronic presentation.

The idea of social responsibility starts from the writings of Andrew Carnegie (1835-1919), the founder of US Steel who elaborated two principles he believed were necessary for capitalism to work.

The first was the *principle of charity* which refers to the compassion exerted by the rich members of the society for the benefit of the unfortunate ones including the unemployed, the elderly and the sick ones. These charity acts could be exerted either directly or indirectly, through community groups, churches or settlement houses.

The second principle entitled the *stewardship principle* requires the business men to act as caretakers of their wealth for the rest of the society. The stewards, as Carnegie calls them should hold their money in trust and use them for any purpose the society regards as legitimate.

The term “social corporate responsibility” dates back from 1930 and was coined by Harvard professors A.A. Berle and C.G.Means. The two professors discovered a new class of managers who were acquiring at that time vast amounts of money. Their opinion was that they should in turn repay society by elaborating or contributing to programs for the benefit of the society.

Another contribution to the development of the concept of social responsibility has been brought by Chester Barnard in the late 1930s. In this book from 1938 “The Functions of the Executive” he argues that social responsibility is a function of the “elite”¹⁹ or of the “executive class”²⁰. Another reference to social responsibility can be

¹⁹ Barnard, Chester Irving *The Functions of the Executive*, Harvard University Press, 1938.

²⁰ Ibid 1.

found in Theodore Kreps's publication entitled „Measurement of the Social Performance of Business”. The author introduced the term “social audit” for the first time and used it in relation to companies.

Howard Rothman Bowen has presented the first definition of social responsibility in his book from 1953 entitled “Social Responsibilities of the Businessman”. He is thought to be the father of CSR. Bowen talks about the types of responsibilities which can be assumed by business people, talking about CSR in the following way: “it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society”²¹.

The social responsibility concept develops and becomes more and more important in the following years with the help and contribution of Davis (1960) who limits the actions and the decisions of the business men to technical and economic interests of the enterprises and of Frederick (1960) who considers social responsibility as a civic attitude which consists of human and economic resources and the willingness to help the community. McGuire (1963) thought that the idea of corporate social responsibility involves more than legal and economic responsibilities and that it stands for the responsibility towards the society. In 1966 Davis and Bolstrom present CSR as the obligation of a person to take into account the effects that his or her decision may have on the social system.

The Nobel Prize laureate in economics Milton Friedman (1976) stated that the self isolation of the managers and the differences between the employer and the employee lead to a reduction of the wealth of the shareholders and stated that the managers used CSR for the development of their professional career.

In 1970 Walton talks about the relations between enterprise and society mentioning the fact that these have to be found both in the top spirit of managers and of the groups having the same goal with the enterprise.

In his book “Strategic management: A stakeholder approach” from 1984, R. Edward Freeman states that the managers have to adjust their policies in order to meet the requirements of their employees, suppliers and not only and the expectations of the shareholders. Donaldson and Davis (1991) talk about the moral aspect of CSR considering that managers should do only what is ethically without taking into consideration the way in which the ethical decisions affect the performance of the enterprise. The same aspect is also approached by Donaldson and Peterson who point out the moral and ethical aspect of the shareholders theory.

In Hart's opinion (1995) the environment of social responsibility can be seen as a resource capable to lead to the achievement of a sustained competitive advantage.

Baron (2001) thinks that using CSR in order to draw socially responsible consumers is a “strategic weapon because an enterprise may draw its customers according to its marketing strategy.

CSR has evolved in the past year from an abstract and strange concept, disapproved by the boards of directors of many companies, into a current way of thought and action, both in the business world and in the society, being a useful tool in finding solutions for a multitude of social problems. Among the factors which contributed to the development of the concept, one can mention the following:

²¹ Bowen, Howard. *Social Responsibilities of the Businessman*. New York: Harper and Row, 1953.

technological change, the process of globalization, the consumer's rights and the growth of the public distrust towards the institutions of the free market.

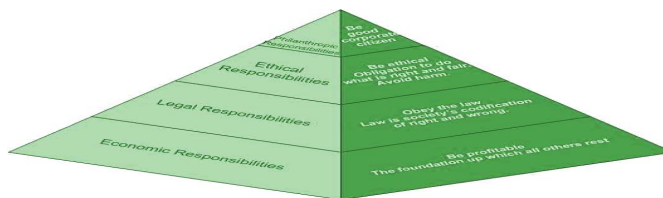
Corporate social responsibility is a concept according to which the companies integrate voluntarily the social and environmental problems in their activities and in the interaction with the stakeholders. CSR means companies which go beyond the minimum legal obligations in order to be involved in solving the social needs. With the help of CSR, all types of companies irrespective of their size may help to the reconciliation of the economic interests with the social and environmental ones.

As one can see this concept can be approached from different angles ranging from Friedman's (1992) profit maximization credo²² to Carroll's liberal view on social responsibility.

The development of CSR over the last 50 years has led to the evolution of the related terminology. The process of CSR includes terms as: triple bottom line (TBL), corporate citizenship, sustainable development (SD), corporate social performance (CSP), and business ethics.

In 1991, Carroll presented his CSR model as a pyramid and suggested that, although the components are not mutually exclusive, it "helps the manager to see that the different types of obligations are in constant tension with one another".

According to Carroll (1983), "corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent"²³. Carroll's four part pyramid has been one of the most cited reference literature and has been frequently reproduced in top management and CSR journals. According to him the manager has to comply with the four different types of responsibilities: philanthropic, ethical, legal and economic.



The recent year were characterized by a series of initiatives in the field of CSR, as it follows:

- The Kyoto Protocol which was adopted in Kyoto, Japan, on 11 December 1997 and is an international agreement related to the United Nations Framework Convention on Climate Change. Its main target is the environmental protection and the reduction of greenhouse gas emissions.

²² Friedman, Milton *Capitalism and Freedom*. Chicago, III: Chicago University Press, 1992

²³ Carroll, A. B. *Corporate social responsibility: Will industry respond to cut-backs in social program funding?* Vital Speeches of the Day, 49, 1983 p. 604-608.

- The United Nations Global Pact (2000) encourages companies to integrate their social responsibility in fields, as for example: the human and employee's rights, the environment and the anticorruption initiatives and so on.
- European Multi Stakeholder Forum (2002) which aims at the development of some common agreement regarding social responsibility among the companies, NGOs, trade unions and consumers.
- World Business Council for Sustainable Development is a global association of 200 companies dealing exclusively with business and sustainable development. Its main belief is that a coherent CSR strategy based on ethical values offers clear business benefits.
- The UN Global Compact, which was set up in 2000 is the world's largest voluntary corporate citizenship initiative, with the mission of an inclusive and sustainable global economy. The Compact has brought businesses together with not only UN agencies but with governments, trade unions and civil society to advance ten universal principles in the areas of human rights, labor, environment and anti-corruption.

2. The Impact of Financial Crisis on the Concept of CSR

Not only have the internal contradictions of the current capitalism but also the irresponsibility of the individual and the lack of prediction for his actions led to the emergence of the financial crisis.

Many companies have declared that the effects of the financial crisis will not impede the efforts of the companies to reduce the greenhouse emissions. According to a survey carried out on the CSR international blog the majority of the interviewed professionals think that CSR will increase as a result of the crisis.

But the companies may come to an agreement regarding the system of priorities excluding or reducing the social responsibility.

Many companies have embraced the concept of corporate social responsibility. A significant example related to the limited importance of CSR in relation to the financial performance is represented by the company Starbucks. This company has a favorable CSR reputation due to its generous labor policies and its commitment to increase its earnings and to improve its environmental practices. It offers employees healthcare benefits and it encourages the farmers who grow coffee from the developing countries. In spite of these actions, the value of the share started to gradually decrease by 50% from the beginning of 2008. But the low performance of the share does not have anything to do with CSR: this aspect is due to the expansion of the company across borders and to the unwillingness of the consumer to pay for a cup of coffee the value of gallon petrol.

The Company General Electric was appreciated by the people involved in the protection of the environment for its line of products «Ecoimagination», being high efficiency products, responsible from the point of view of the environment.

The price of the GE shares has started to decline for six years. In spite of its current or predicted incomes obtained from the product line Ecoimagination and of the substantial investments in alternative energies, the company was influenced by the disappointment from the Wall Street in what the total earnings of the company are concerned. Moreover, GE continues to invest in energy companies based on fossil fuel

which leads to the fact that there are still reserves for the investments which do not take into consideration the responsibility towards the environment.

The company with the weakest reputation in the field of environment is Exxon Mobil. This reputation also comes from the lack of concern towards the global problem of climate change. In spite of these, Exxon Mobil is one of the most profitable corporations. It has even overtaken the company BP from a financial point of view, the latter changing its name into Beyond petroleum in order to point out the responsibility of reducing the dependence on fuels. Bp is the first company which has made public the fact that the greenhouse gas emissions are responsible for the global warming.

The contrast between Exxon-Mobil and BP points out the limitation in what the social responsibility of the corporations is concerned. It is difficult to differentiate between responsible and irresponsible companies. While BP may be more socially responsible than Exxon-Mobil, when we refer to issues related to climate changes Exxon Mobil has been involved to a large extent in preventing accidents and oil spills. That is why it is not clear and obvious which of the corporations is more socially responsible.

These are only some examples, and only some companies may be thought as responsible or irresponsible along their business operations.

In Romania there are currently some questions regarding social responsibility and the evolution of this concept:

1. What can we understand from the budgets of the companies about the situation of CSR in Romania?
2. Is it efficiently from an economic point of view to leave out the priority list the field of CSR?
3. Is the public willing to accept that social responsibility is less important than the welfare of a corporation?
4. Is social responsibility in Romania a reality or just a PR image?

Having an estimated market value of 30 millions Euros, the concept of corporate social responsibility in Romania is still a new field.

It was firstly applied by the multinational companies and it is gradually accepted in the Romanian strategies. The budget granted for this field varies from a few thousands of Euros for the SMEs to even millions of Euros for the large enterprises. The financial crisis and the economic context are problematic aspects for the success of CSR in 2009 under the current circumstances when many companies adopt a strict policy as to reduce costs.

Even if the SMEs which were interested in CSR have reduced with at least 30% the budget given for social responsibility, the large companies have kept the same level as in 2008.

In 2008 over 14.000 companies have been closed. Coface estimates that this year the well known companies will fall and the AOAR prognosis points out many bankruptcies for the SMEs. The Takeovers will be only 25% of the value of the companies before the economic crisis.

The year 2009 will bring at least 28.000 bankruptcies, which represents a double amount as opposed to 2008, produced by the context of the international crisis.

Conclusions

CSR has evolved in the past year from an abstract and strange concept, disapproved by the boards of directors of many companies, into a current way of thought and action, both in the business world and in the society, being a useful tool in finding solutions for a multitude of social problems. Among the factors which contributed to the development of the concept, one can mention the following: technological change, the process of globalization, the consumer's rights and the growth of the public distrust towards the institutions of the free market.

Corporate social responsibility is a concept according to which the companies integrate voluntarily the social and environmental problems in their activities and in the interaction with the stakeholders. CSR means companies which go beyond the minimum legal obligations in order to be involved in solving the social needs. With the help of CSR, all types of companies irrespective of their size may help to the reconciliation of the economic interests with the social and environmental ones.

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THEORETICAL ASPECTS OF FINANCING HIGHER EDUCATION

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Abstract: This article deals with theoretical aspects of financing higher education, to which primarily belongs the issue of the character of education as a good, but also particular reasons for the state intervention to the education and a question about student's financial participation on the costs allied to their education.

JEL classification: I20, I21

Key words: higher education, public good, intervention, externality, benefit, student's financial participation, tuition fees.

Introduction

In connection with the issue of financing education it is very important to discuss about the character of education as a good. Is it possible to consider the education as a public good? Education is often considered as a public good, from which is consequently derived, that the responsibility for providing and financing education should take on the state. As we can find out thereafter, this opinion is not exactly correct.

Determination of the character of education

The first place in defining the concept of public good belongs to **Paul A. Samuelson**²⁴ (to another authors, who deal with the issue of public goods belong for example married couple of Musgrave's²⁵, Stiglitz²⁶, Buchanan²⁷, Mankiw²⁸, etc.). Samuelson is considered as the establisher of the theory of public goods. He distinguishes between private and public goods. He accepts public goods as goods, which bring benefits for all members of society to the intent that the consumption of a public good by one subject do not preclude its consumption by another subject. Exactly this characteristic differentiates public goods from private goods. Resulting from the Samuelson's article we can define two main characteristics typical for public goods:

²⁴ SAMUELSON, P. A.: *The Pure Theory of Public Expenditure*. In: *The Review of Economics and Statistics*, Vol. 36, 1954, No. 4.

²⁵ MUSGRAVE, R. A. – MUSGRAVE, P. B.: *Public Finance in Theory and Practice*. New York: MacGraw – Hill, 1989.

²⁶ STIGLITZ, J. E.: *Economics of the Public Sector*. New York: Norton and Co., 1988.

²⁷ BUCHANAN, J. M.: *Public Finance in Democratic Process: Fiscal Institutions and Individual Choice*. Chapel Hill: The University of North Carolina Press, 1987.

²⁸ MANKIW, G. N.: *Macroeconomics*. New York: Worth, 1992.

- **non – rivalry** – this characteristic points out that consumption of one good is possible to realize with more individuals without losing benefit from its consumption,
- **non – exclusion from the consumption** – this characteristic means that it is not possible to exclude anyone from the consumption of public good.

According to the typology of goods and defining concept of public good on the part of particular authors and their view at the issue of the character of education as a good, I attained to conclusion, or more precisely, I identify with the opinion that only the obligatory education belongs to public goods (because this type of education meets the condition about non – rivalry and non – exclusion from the consumption). It is not possible to classify higher education as a public good, because the consumption of it is partly rivalry and it is characterized by relatively easy exclusion from the consumption. Also its consumption is possible to willingly refuse. Higher education can also not be classified as a private good, because its consumption by one individual allows consuming by another. For reasons given, I consider higher education as a mixed good, which a consumer can consume so far to fill the capacity without reducing any benefit, which have another individuals from its consumption. This conclusion is also resulting from the working paper, which was made by the International Monetary Fund in 1999²⁹. In this document it is noticed, that higher education is in general partly rivalry and also excludable.

Causes for the state intervention to higher education

As I mentioned in the previous part, it is necessary to consider higher education as a mixed good. So the state intervention in financing this part of education becomes necessity. This argument is testified to many factors, which are in general instrumental to give reasons for the state intervention to economy, but later these factors have been applied to providing and financing education. A pioneering article in the mentioned sphere was introduced by an important American economist Milton Friedman in 1995 under the name of „The Role of Government“³⁰. To the factors that give reasons to the state intervention in education, Friedman classed under mentioned four points, which have been further applied for higher education by me:

- capital market imperfection,
- incomplete information,
- possibility to create a monopoly,
- existence of positive externalities.

In case of providing higher education through the market, students, which do not dispose of sufficient financial resources, would be forced to borrow this necessary money. But human capital obtained by education is unmarketable. It is not possible to buy it. It is possible to buy only services, which we are able to provide through it. So it is not possible to use the human capital as collateral to obtain a student loan. If students do not dispose of any assets, which they could use as collateral, they would have a problem to obtain needed financial resources in the capital market. This may conduce

²⁹ WIGGER, Berthold U. – WEIZSÄCKER, Robert K.: IMF Working paper: *Risk, resources, and education – public versus private financing of higher education*. International monetary fund, 1999, p. 3.

³⁰ FRIEDMAN, M.: *The Role of Government*. In: Solo, R.A.: *Economics and the Public Interests*. New Brunswick: Rutgers University Press, 1955, p. 123-144.

to very low demand for higher education, what would be an unfavorable phenomenon for the society. That is the reason for a state intervention to the process of providing higher education. State should correct the imperfection of the capital market (for example by providing state loans for the students).

Next reason for a state intervention is related to the problem of **incomplete information**. Each consumer knows his own needs, which he would like to meet the best. This applies to the sphere of obtaining education too. But in many cases students do not dispose of sufficient personal knowledge or experience, through which they would be able to choose the optimal choice for their study. That is the reason why parents enter to this process, but this could conduce to the fact, that the parent’s decision may not be the best choice in favor of their child. This can be a result from busyness, indolence or insufficient informedness of the parents. It is very difficult to obtain the needed data base of all information for an optimal decision and as it is not possible to construct an ideal information system, information asymmetry will always exist and will be a cause of education’s market failure. That is the reason why state enters to this process and collects needed information, which is through its character a rare good.

Possibility to create a monopoly in the sphere of education as alternatively cause for market failure and for some needs of state intervention is primarily related to creation a space monopoly. This type of monopoly guarantees monopoly position of one school in the region (for example in case of less populated region), whereby there is no competition provided.

Positive externalities do exist in a situation, when some benefit rises to someone, who does not pay for it. The benefits, which are produced by education, are most frequently divided into public and private. The public benefits of education, which have effect on general living standard and are exploited by each citizen of the society, we consider as a positive externality, which is the reason for state intervention in sphere of financing education. The benefits directly arising from higher education were dealt by David E. Bloom, Matthew Hartley and Henry Rosovsky from the american universities of Harvard and Pennsylvania.³¹ From their point of view higher education attained provides extensive array of public and private benefits (see Table 1).

Table no. 1 The Array of Higher Education Benefits

	Public	Private
Economic	<ul style="list-style-type: none"> • Increased Tax Revenues 	<ul style="list-style-type: none"> • Higher Salaries and Benefits
	<ul style="list-style-type: none"> • Greater Productivity 	<ul style="list-style-type: none"> • Employment
	<ul style="list-style-type: none"> • Increased Consumption 	<ul style="list-style-type: none"> • Higher Savings Levels
	<ul style="list-style-type: none"> • Increased Workforce Flexibility 	<ul style="list-style-type: none"> • Improved Working Conditions

³¹ BLOOM, E. D. – HARTLEY, M. – ROSOVSKY, H.: *Beyond Private Gain: The Public Benefits of Higher Education*. In: Forest, J. J. F. – Altbach, P. G. (editors): *International handbook of higher education. Part one: Global themes and contemporary challenges*. Springer, 2006, p. 300.

	<ul style="list-style-type: none"> • Decreased Reliance on Government Financial Support 	<ul style="list-style-type: none"> • Personal / Professional Mobility
Social	<ul style="list-style-type: none"> • Reduced Crime Rates 	<ul style="list-style-type: none"> • Improved Health / Life Expectancy
	<ul style="list-style-type: none"> • Increased Charitable Giving / Community Service 	<ul style="list-style-type: none"> • Improved Quality of Life for Offspring
	<ul style="list-style-type: none"> • Increased Quality of Civic Life 	<ul style="list-style-type: none"> • Better Consumer Decision Making
	<ul style="list-style-type: none"> • Social Cohesion / Appreciation of Diversity 	<ul style="list-style-type: none"> • Increased Personal Status
	<ul style="list-style-type: none"> • Improved Ability to Adapt to and Use Technology 	<ul style="list-style-type: none"> • More Hobbies, Leisure Activities

Source: BLOOM, E. D. – HARTLEY, M. – ROSOVSKY, H.: *Beyond Private Gain: The Public Benefits of Higher Education*. In: Forest, J. J. F. – Altbach, P. G. (editors): *International handbook of higher education. Part one: Global themes and contemporary challenges*. Springer, 2006, p. 300.

For example, the increased earnings that result from a college education lead to greater tax revenues and enable increased savings and investment. Skilled workers are likely to be more productive, more creative in their development and use of new technologies, more adaptable and better able to learn new skills, and to have a greater knowledge of global economic and business conditions. Educated people are also less likely to have to claim government financial support.³²

Some authors (for example Dietsch³³) do not agree with the fact, that higher education is connected to existence of positive externalities. According to Dietsch, higher education, in comparison with elementary and secondary education, brings only private benefits. But he assigns this fact only to education, it does not concern to research, which is realized on the universities. In his point of view the research realized on the universities brings benefits for the whole society.

From my point of view, higher education attained brings positive externalities, so I incline to the side of these authors, who defined the public benefits arising from higher education.

Student's financial participation on the costs allied to their education

To existence of benefits arising from higher education attained and with the mixed character of education as a good, it is also connected the issue of the application of student's financial participation on the costs allied to their education, ergo the issue of the application of tuition fees. Apart from the public benefits, which we consider as a positive externality and are the reason for a need of state intervention to the sphere of

³² BLOOM, E. D. – HARTLEY, M. – ROSOVSKY, H.: *Beyond Private Gain: The Public Benefits of Higher Education*. In: Forest, J. J. F. – Altbach, P. G. (editors): *International handbook of higher education. Part one: Global themes and contemporary challenges*. Springer, 2006, p. 299.

³³ DIETSCH, P.: Financing higher education: The case for a graduate tax. In: *Les Ateliers de L'éthique*, Vol. 1, 2006, No. 1, p. 88-102.

financing higher education, we meet also the private benefits, which have effect on increase of living standard for particular higher educated individuals. Exactly these private benefits are adduced as one of the main reasons for a need of student's financial participation on the costs allied to their education. The main arguments, which are in general adduced in favor of or against applying tuition fees, are following:

Arguments for applying tuition fees:

- limitedness of public resources, which is incompatible with the increasing interest in higher education,
- existence of private benefits resulting from higher education attained and also the character of higher education as a mixed good,
- the tuition fees will conduce to an increase of student's motivation for study,
- additional resources obtained from the tuition fees will conduce to the increase of the quality of study and also of the attained education.

Arguments against applying tuition fees:

- applying of tuition fees creates a barrier to entry in higher education, what will conduce to its lower consumption,
- payment of the costs of higher education is included in tax payment, so the financial resources for payment of the costs of higher education are the issue of the government budget priorities, so it is possible to decrease resources in another competitive sphere,
- existence of public benefits resulting from higher education attained, from which has a benefit the whole society,
- tuition fee is often connected to lower quality of higher educated individuals, who consider its ending as a matter of course by reason of paying.

The issue of financing higher education has happened in many countries often question under debate in the last time. It is because of the increasing interest in higher education, which became a trend of present time and which we can see almost everywhere in the world, is encountering constantly rising requests for additional financial resources of the universities. This increasing interest in higher education is a reasonable phenomenon on the score of existence of benefits, which are connected with attained education. Undoubtedly the main reasons for a constantly increasing interest in study on the universities are higher earnings for employees with higher education in comparison with employees without it and also a very high employment rate of individuals with higher education attained.

The issue of obtaining additional financial resources is relating to countries, in which the system of higher education is covered primarily through the public resources. From the most developed countries in the world, the OECD countries, are these primarily Scandinavian countries (Denmark, Finland, Iceland, Norway and Sweden), Slovak Republic, Czech Republic, Poland, Germany, Greece and Ireland. These countries should think about a change in their system of financing higher education in the future (for example by implementation of student's financial participation on the costs allied to their education), because apart from that they might not be able to cover constantly increasing demand for higher education and also increasing quality of higher education. This could consequently endanger their position in the international competition and also in the process of globalization.

Conclusion

Education is in general considered as a public good, but this opinion is not exactly correct. It is possible to consider it as a public good only in the sphere of obligatory education, because it meets the condition about non – rivalry and non – exclusion from the consumption. This is not correct in the case of higher education, which is necessary to be considered as a mixed good. It consequently results a need for state intervention in the sphere of financing higher education. This intervention is inevitable because of four main reasons: the capital market imperfection, the incomplete information, the possibility to create a monopoly and existence of positive externalities.

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AGRICULTURE SECTOR IN THE REPUBLIC OF MACEDONIA – CURRENT SITUATION AND DEVELOPMENT PERSPECTIVES

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Abstract: Macedonia needs a balance between the goals of economic progress, social development and environmental protection. The basic reasons for this lies in the decrease of the exporting competitiveness of the Macedonian agricultural sector. This negative tendency results in losing the export markets, and also in a strong pressure put by the foreign producers. What is known is that Macedonia has strong comparative advantages when it comes to food producing. Those comparative advantages have to be supported by enhancing the competitive advantages the main purpose of which would be enabling more dynamic export of high-quality agricultural products from Macedonia.

JEL classification: Q1, Q18

Key words: agriculture, development, Macedonia

1. Role of the Agriculture in the Economy

Agriculture (including hunting, forestry and fishery) is an important economic sector and is the third largest sector after services and industry. In the 2000-2006 period, the share of the agricultural sector in the overall GDP has remained relatively stable around 12% (compared to the 1.6% in the EU-25). If agro-processing is included, the percent increases to 16%. Agricultural GDP, in line with overall GDP, declined in 2001, but has recovered since.

Table 1 Key Agricultural sector indicators (2002-2006)

	2000	2001	2002	2003	2004	2005	2006
GDP (Euro current million)	3.893	3.839	4.001	4.105	4.325	4.500	4.827
Gross Agriculture Production	468.9	451.4	494.8	548.0	570.4	556.9	580.1
Agricultural % of GDP	12	11.8	10.0	11.4	11.3	12	12
GDP real growth (%)	4.5	-4.5	0.9	2.8	4.1	4.1	4.0
Agriculture growth (%)	1.0	-10.8	-2.0	4.8	6.2	1.8	3

Source: State Statistical Office of the Republic of Macedonia (2007): *Statistical Yearbook, Skopje*

Agriculture has served as shock absorber for the socio-economic and structural changes in industry and other sectors of the economy. Officially, the sector provides income and employment to approximately one fifth of the national workforce but the real contribution probably exceeds this percent as 36% of the labor force and 44% of

the poor live in rural areas and population in rural areas rely basically on farming as a major form of economic activity, forestry, craftsmanship and rural tourism. Population engaged in farming includes a high proportion of elderly persons and young people having little motivation to enter and remain in agriculture due to the low and uncertain incomes and poor working conditions.

Macedonia has some comparative advantages in agriculture, which comprise in fertile soils, a range of favorable micro-climate features, natural upland pastures convenient for production of some crops, horticultural produce and lamb. About 49 percent of the total area, or 1.27 million ha, is agricultural land, including about 700,000 ha of pastures. A further 37 percent of the country (950,000 ha) are forests. Most of the cultivable land (82 per cent or 461,000 ha) is used for production of cereal and other crops and vegetable gardens, 26,000 ha (5 per cent of the cultivable land) are vineyards, 15,000 ha (or 3 per cent) are orchards and the remaining 58,000 ha (10 per cent) are meadows. Around 1 per cent of the total agricultural land are swamps and fish ponds.

Agricultural products represent 15-17% of the total country's exports, although the country remains a net importer of agricultural and food products, which accounted for about 15 percent of total imports in 2004-06. The agricultural trade deficit in value terms has been widening in recent years, though a sizeable increase in tobacco and wine exports narrowed the gap in 2005-2006. The trade pattern (export of labor-intensive products and importing land-intensive products) reflects the country's comparative advantage for labor intensive production systems, and the relative land-scarcity.

Promotion of the competitiveness of the production and increase in the income of the rural population is one of the preconditions for social stability in the country. Decline in agriculture, forestry and fishery and associated the country's agriculture is facing major challenges and structural reforms. WTO membership increased possibilities for export expansion but also competition on the domestic market from imported products. These challenges are going to be even more severe with the implementation of the Free Trade Agreements with the neighboring countries and the EU-27. Strengthening the competitiveness of the country's agribusiness is the focal point for its survival. This must be supported by the reform of the public institutions and by the implementation of well-targeted agricultural support policies and rural development measures.

The Republic of Macedonia is in the process of acquiring full membership of the European Union and is thus eligible for the pre-accession assistance in accordance with EC Regulation 1085/2006 of 17 of July on establishing an Instrument for Pre-accession Assistance (IPA). As a candidate country¹⁰⁶, the Republic of Macedonia has access to all five IPA components. The overall objective of pre-accession assistance is to support the country's efforts to comply with the Copenhagen accession criteria in terms of establishing stable institutions guaranteeing democracy and the rule of law, operate functioning market economy and adoption and implementation of the Acquis and show ability to assume the obligations of EU membership. This also involves preparing for the implementation of the Community's cohesion policy and rural development instruments by introducing strategic planning and management principles, which guide the implementation of EU structural instruments. Consequently, under the IPA fifth component for rural development (IPARD), the country is entitled to preaccession financial aid for sustainable agriculture and rural development with focus on preparation for the Common Agricultural Policy and related policies and for the

European Agricultural Fund for Rural Development (EAFRD) and adjusting the sector towards the Common Market.

2. National Agricultural and Rural Development Strategy

The National Strategy for Rural and Agricultural Development 2007-2013 (NARDS) has two interlinked purposes. The **first one** is to provide the Macedonian Government (and, more in particular, the Ministry of Agriculture, Forestry and Water Economy - MAFWE) and to the stakeholders (rural dwellers, farmers and their associations, producer groups and processors) a multi-annual reference material – strategy and a tool for the development of Macedonian agriculture and rural areas. The **second one** is to establish a base for supporting the drafting of the hierarchically lower-level agricultural and rural development operational plans, in particular the Instrument for Pre-Accession for Agricultural and Rural Development (IPARD) plan, and for their discussion with the European Commission.

In fact, according to the EU Council Regulation no. 1085 dated 2006, establishing an Instrument for Pre-Accession Assistance (IPA) – the Preamble, point 16 stipulates that: “Assistance should be provided on the basis of a comprehensive multi-annual strategy that reflects the priorities of the Stabilization and Association Process, as well as the strategic priorities of the pre-accession process”. This is reinforced in Title 1, article 6 Planning of assistance – “For countries listed in Annex I, assistance shall be based in particular on the Accession Partnerships. Assistance shall cover the priorities and overall strategy resulting from a regular analysis of the situation in each country and on which preparations for accession must concentrate ...”. The mentioning of the strategic document for IPA reflects and resemble the provisions for EU Member States, that are included in the EU Regulation no. 1698 of the year 2005, that requires – specifically for rural development – that “each Member State should prepare its rural development national strategy and plan constituting the reference framework for the preparation of the rural development programmes...”.

Agricultural and Rural Development are key elements for Macedonia’s pre-accession to the European Union. Following Macedonia’s application for EU Membership in 2004, in December 2005 the European Council granted the Republic of Macedonia the status of candidate country for European Union membership. Negotiations for accession will start only when the EC considers that the country has reached a sufficient degree of compliance with the membership criteria.

MAFWE has adopted the following **strategic objective** as the basis for agricultural and rural development and the formulation of agricultural policy:

To strengthen the ability of Macedonian agriculture to compete in the integrated regional markets of the European Union and south-eastern Europe through measures to increase the efficiency of agricultural production, processing and marketing, and to build appropriate, effective public and private institutions; to improve farm incomes; to ensure that consumers have access to safe, healthy food; to optimize the use of scarce land, forest and water resources, in an environmentally sustainable manner; and to build viable rural communities through sustainable rural development.

To achieve the stated strategic objective, six strategic policy focal issues should be addressed during the period (2007-2013), which are outlined below:³⁴

1. Increase Agriculture sector competitiveness by enhancing the efficiency of the key factors of production namely land, labor and capital, and improving agricultural support policies and the modernization of the processing industry.
2. Improve structural linkages of the agricultural sector through a more structured horizontal and vertical integration, in line with EU requirements.
3. Achieve Food Quality and Safety through increased control and appliance of food safety systems (both at production and processing levels) and increased quality of plant and animal products.
4. Achieve sustainable resource management in an environmentally acceptable manner.
5. Improve living conditions in rural areas through the improvement of the physical infrastructure, favoring of creation of off-farm employment and income generation opportunities, and through diversification of agricultural production.
6. Reform the regulatory and institutional framework in the key areas of food safety, veterinary, phytosanitary, seeds and propagating materials and animal nutrition; Common Markets Organization and Rural development (by establishing enabling legislation and administrative structures that are capable of rural development planning, identifying the structural needs in rural areas, the development, implementation and management of rural development programs; control of financial flows and measures undertaken; monitoring, reporting, control and evaluation of programs).

So far, the various national support schemes for Agriculture and Rural Development, (detailed in Part II, Section 2.4.), have insufficiently incorporated all necessary measures to improve the quality, hygiene, environmental and animal welfare standards in the production and processing sectors, as well as to stipulate effective economic development and social cohesion to achieve a sustainable rural development process, particularly being deficient of instruments to support investments for achieving mentioned goals as a result of limited funding availabilities in the period of sustaining Macro-economic stabilization and control of Budget spending.

3. IPARD Programme

The pre-accession assistance strategy for the whole implementation period of 2007-2013 of the rural development component is provided within the frame of National Agriculture and Rural Development Plan (IPARD Programme) and in coherence with the national strategic objectives for EU Integration. Thus, the IPARD Programme is aimed at contributing to achieve the overall national development goals as well as the specific objectives for the agricultural and rural sector which are outlined below; in synergy with other national and international multi- and bi-lateral programmes and actions; and compliant to the structural and procedural frameworks set up for the purpose of preparation for EU accession.

The main purpose of the IPARD Programme is to act as planning document for implementing Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) for the period 2007-2013.

³⁴ MAFWE, 2007, pp. 72-80

The document has been prepared by the Ministry of Agriculture, Forestry and Water Economy (MAFWE) with the technical support provided by the Structural and Legal Reforms Project funded by the EU, in close collaboration with the Commission, other relevant institutions and the economic and social partners at various levels. The IPARD programme is in line with the Multi-annual Indicative Planning Document (MIPD) and other strategic documents on the integration process for Candidate countries.

The IPARD Programme consists of a coherent set of priority axis and developed appropriate implementing measures and operations (group of investments) to address a set of objectives for agriculture and rural development in the country, as well as description of the financial contribution which is needed to implement the defined strategies in the MIPD. Therefore, the set of priority axis of the IPARD Programme are in synergy with the National Strategy for Agriculture and Rural Development (2007-2013) relating to the strategy and objectives for development of the agriculture sector and the rural areas in the period of 2007-2013, and provide an added value to the pre-accession process.

The **overall objective** of the Programme is Implementation of the *Acquis communautaire* concerning the common agricultural policy and related policies for competitive and sustainable agriculture; strong, sustainable rural communities and diverse and sustainable rural environment.

The main general objective of the country's IPARD Programme is thus to: "Improve the competitiveness of agricultural holdings and the food industry developing them to comply with Community standards, while ensuring sustainable environmental and socio-economic development of rural areas through increased economic activities and employment opportunities."

This shall be achieved through following specific objectives of the Programme:

- Improving the technological and market infrastructure of commercial agricultural holdings and food processing industry aimed at increased added value of agri-food products and achieved compliance with EU quality, health, food safety and environmental standards
- Improved quality of life of rural population, increased income and creation of new employment opportunities.

The set of priority axis and appropriate measures as outlined in the MIPD, are as follows:³⁵

Priority Axis 1

Measure 101: Investments in agricultural holdings to restructure and to upgrade to Community standards

Measure 103: investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to Community standards

Priority Axis 3

Measure 302: Diversification and development of rural economic activities

Supporting Measure 505: Technical Assistance for the implementation of the IPARD Programme

³⁵ MAFWE, 2008

The three main measures to be applied under this Programme were outlined in the Multi Indicative Planning Document (MIPD) developed for the purpose of the initial financing period starting 2007 until 2009 of the pre-accession instrument and further elaborated in detailed operations (projects and group of projects) on the basis of the encountered weaknesses in the frame of the in-depth analysis in the relevant sub-sector studies.

Additional measures will be considered to be introduced in the forthcoming financial period (2010-2013). These are:

Priority Axis 1:

Measure 102 Setting-up of producer groups

Priority Axis 2:

Measure 201 Pilot promotion of Agri-environment measures (Preparation for implementation of actions relating to environment and the countryside)

Measure 202 Leader approach (Preparation and implementation of local rural development strategies)

Priority Axis 3:

Measure 301 Development and the improvement of rural infrastructure

Measure 303 Improvement of training

The main beneficiaries of the measures applied under the Programme will be agricultural holdings, agriculture cooperatives, food industry, rural economic operators, rural entrepreneurs, and the rural population as a whole. The IPARD Programme will be implemented under the guidance of the Ministry of Agriculture, Forestry and Water Economy (Managing Authority) through its Department for Rural Development acting as Secretariat in collaboration with the IPARD Sartorial Monitoring Committee and the Agency for financial support of Agriculture and Rural Development (IPARD Agency). Communication with the EU Commission on financial matters will be carried out through the National Fund (Ministry of Finance) and on programming matters through the IPA Monitoring Committee and National IPA Coordinator.

6. Conclusion

Globalization has, and will continue to have, a major influence on Macedonia's agricultural sector. All Macedonian governments since independence have drafted agriculture strategy documents whose overarching objective was achieving self-sufficiency in food production. The efforts to translate such an isolationist objective into concrete agricultural policies are particularly troublesome in the light of SAA and WTO agreements and lead to *ad hoc* government interventions to mitigate the increasing trade gaps for particular food products, with milk and cereals being two egregious examples.

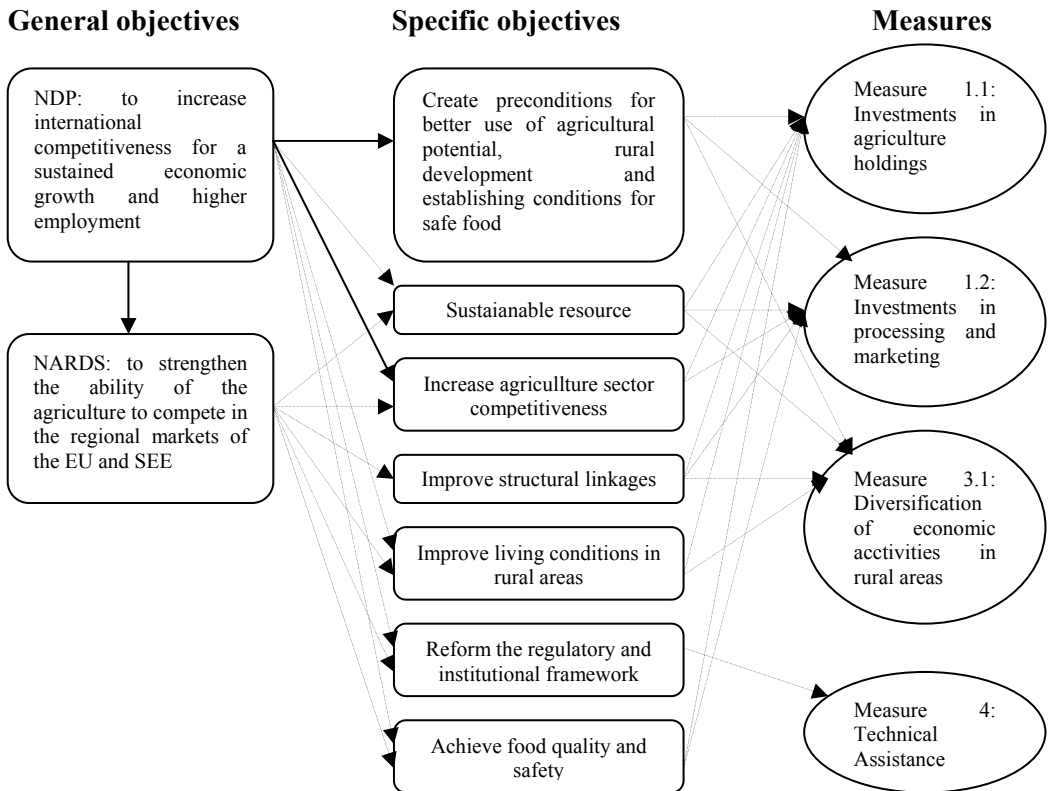


Figure 1. Hierarchy of Agriculture and Rural Development Objective

Hence, both in keeping with our recommendations for the greater globalization of the Macedonian economy and with the need to formulate a realistic agricultural policy, Macedonian policymakers need to abandon the goal of food production self-sufficiency and embrace a more realistic goal of making Macedonia a “net agricultural exporter” while maintaining the environmental sustainability of the agriculture resource base. Thus, Macedonia needs to carry out a fundamental realignment of its national agricultural policies and support programs toward helping farmers to produce commodities using efficient technologies that they feel will be most advantageous from a market perspective, for traders to move goods in the expectation of profits unconstrained by uncertainty about government intervention, and for consumers to be able to buy food at the lowest prices, whether from foreign or domestic sources. Such policy adjustments are long overdue given Macedonia’s commitments to reduce trade barriers under the SAA and WTO agreements as well as the forthcoming expansion of CEFTA, and future EU membership.

By acquiring EU candidate status, Macedonia became eligible to receive investment grants for rural development under the IPA program, and creating the administrative capacities for making effective use of these funds is an important task for the government. The introduction of EU and international standards regarding the origin, quality, health testing, and other components of food products, fresh and processed, will become increasingly important. Without their effective implementation, Macedonian market- and export-oriented agricultural surpluses have no real and sustainable prospects.

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**ANALYSIS AND MODELATION OF THE CONSUMER'S BEHAVIOUR OF FINANCIAL PRODUCTS
ON THE ROMANIAN CAPITAL MARKET**

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Abstract: The study of the consumers' behavior of financial products is based upon the hypothesis according to which they behave rationally that is they try to aim their objectives at the highest level possible, taking into account the restrictions that they are forced to face. Having this context the basic idea that guides the consumers' behavior of financial products is maximizing the forecasted utility. Utility will be maximized when a certain combination of forecasted gains and risks is preferred in report with the other combinations. The consumers of financial products establish their objectives in the conditions of the estimated risk and profitability and they have to make a choice taking into account the uncertainty conditions.

JEL classification: G00, G11

Key words: consumer behavior, financial product, utility function, risk, uncertain

Introduction

At the beginning of this century the world is passing through a period of profound changes, of social, economic and financial crises, changes concerning the political regimes and the structure of the global economy through the integration of the financial flows, fact that favors the global economy's development.

Globalization – a long discussed process – represents a reality whose consequences are felt by everyone. The global economic integration was accelerated on different directions, the speed being a characteristic of these times. Information travels faster and faster, the access to information is easier to be obtained due to technological evolution and this fact makes that the environment we live in to continuously change. Each domain of activity is influenced by this process and the financial markets are considered a real engine for globalization.

The process of globalization is stirred by two phenomena with profound impact upon the evolution of the human society that is the technological progress within the domain of information processing and circulation and the markets' liberalization tendencies, especially the capital one that determines movements of capitals towards the areas that offer higher profits.

In the financial sector, nowadays, one can observe a tendency of concentration that will give birth to great financial corporations. The existence of such financial giants and the necessity of existing a new economy's settlement background and adequate control are two aspects that can be in argument because the great corporations do not

want a strict settlement of the financial sector, being interested in the markets' larger opening. Nevertheless the central banks should exert a closer supervision of the financial activity together with the discouragement of speculative capital movements, so that when making for an immature market with a fragile institutional environment should avoid severe impacts.

Animated by the desire of answering the customers in the best way possible but taking into account the market risk reduction, the access to new resources, within the global approach of markets one can observe the companies' closer and closer tendency of collaboration. Competition, technologies, markets' reorganization and not at last the consumers' behavior are determinant factors for the convergence of industries, tendency that occurs more and more at present.

Analyzing the evolution of the international financial market one can say that the future global financial market will be characterized by the existence of some great financial holdings built around the greatest commercial banks. And this due to the fact that within the commercial banks there is already a structure (Basel Committee for Banking Supervision) that tries to settle a unitary frame in establishing the activity on financial markets. The greatest problem that has to be surpassed in order to get to the stage of global financial market is the one regarding the settlement of risk administration.

The infrastructure of the global financial market will be built through the development of the existing informational networks, especially the internet. The informational networks of the global financial market will turn into networks with a high level of security that will allow not only the flow of financial transactions from any geographical point on the globe but the access to pertinent and verified information as well.

The transactions' clearing house will be made through informatics systems of the interconnected financial centers, thus forming a system of global clearing house.

It is obvious the fact that when there will exist a global financial market we will not speak of national financial markets, neither of the categories of consumers specific to different countries. The integration of the Romanian financial market on the global financial market will be made through the integration into the financial market of the European Union, together with its development at global dimensions.

Taking into account that the greatest financial institutions that carry their activity in Romania are institutions with foreign capital and they are part of financial groups with international activity and the banks with Romanian capital will be achieved by international financial groups and analyzing the rhythm of development and reorganization of the Romanian economy with the purpose of adapting to the realities and exigencies of the developed economies, we consider that there is not any possibility that in future a financial institution with Romanian capital to become a financial group that should activate on the global financial market. The most probable, Romania's integration within the global financial market will be achieved through the participation of the capital market through the Stock Exchange (that will form a single entity that should include RASDAQ market, the Financial Monetary Stock Exchange and Sibiu Stock Exchange), at the formation of a regional capital market.

The only alternative for the Romanian financial market to be visible and to have an important role within the context of globalization is that Romania should create a specialized market for a completely new financial product that should answer efficiently to the global consumers' necessities for such products.

The financial product can be regarded from a double point of view. On one hand the product is destined to customers and is defined according to this. The financial products are immaterial, the customer being the one who gives them birth. On the other hand, the delivery of a product to a customer requests the attendance of a set of operations, very often with an administrative character. So a financial product is requested initially by a customer and its transmission is accompanied by a set of operations.

At present, on the financial market any person has the quality of a consumer. The consumers are divided into two categories – individuals and companies, categories aimed by the institutions that offer financial products and services. This segmentation has as a background different documents requested by each of these categories when they want to buy a financial product or service.

Within the two categories of consumers one can find more sub-categories, division achieved after different criteria. But irrespective of the criteria of division, of the category that he belongs to, each consumer is viewed individually by the financial banking institutions from reasons of risk guarantee that these institutions assume in their activity.

On the banking financial market there is a high level of personalization among services and products, which, in the case of banks does not aim the highest level of satisfaction of the consumers, but the need to cover the risk of the banking financial institutions. Unlike banks, the societies of financial investment services aim the consumer and his needs' satisfaction at the highest level.

In an extended acceptance, a consumer of financial banking products can be considered any investor fellow, starting with the one that has deposits in the bank and ending with the one that buys a commercial society listed at the stock exchange.

Any decision of a consumer on the financial market must have at the base the definition of at least 5 aspects, namely:

- a) establishing the profitability objectives (with this indicator one can compare different opportunities of investment and according to the established level as a target, one can set the structure of the investment portfolio);
- b) establishing the time horizon for the investment (that is establishing the period of time in which the profitability objectives should be achieved);
- c) establishing the investor's risk profile that is tightly connected to the aimed objective of profitability, the risk of an investment being directly proportional with its rated capacity. From the risk's profile point of view, investors are divided into three categories: investors with risk aversion, neutral ones but with preferences for risk as well;
- d) establishing an amount of money that will be invested. There is a principle according to which it is good to invest as much as the investor affords to lose. Omitting this recommendation, that views more the investor's psychic comfort, the invested amount depends on a lot of factors among which we can mention: the investor's liquidities, the incomes that he obtains on a constant base, his risk profile, the proposed level of profitability and the future usage of the amounts gained from investment;
- e) establishing the structure of the investment portfolio, that depends mainly on the investor's risk profile, as well as on the associated risk of different financial instruments (quantified by different companies of specialized rating).

Analysis consumers' behavior

The study of the consumers' behavior of financial products is based upon the hypothesis according to which they behave rationally that is they try to aim their objectives at the highest level possible, taking into account the restrictions that they are forced to face.

Rationality on financial market implies a lot of hypotheses, among which there can be mentioned:

- portfolios' formation is made according to the criteria of profitability and risk;
- the market's portfolio is a reference point for any formed portfolio;
- the portfolio can change due to the appearance of new, relevant information that can be perceived identically by investors.

Having this context the basic idea that guides the consumers' behavior of financial products is maximizing the forecasted utility. Utility will be maximized when a certain combination of forecasted gains and risks is preferred in report with the other combinations.

The consumers of financial products establish their objectives in the conditions of the estimated risk and profitability and they have to make a choice taking into account the uncertainty conditions. Specialists make appeal to the utility function associated to the amount of money invested in financial titles:

$$U = f(R, \sigma),$$

where U is the utility function in the optimistic probability of obtaining a gain, function that surprises the way the investor evaluates an investment with a certain estimated profitability R and with a certain risk σ .

The utility function is the easiest function to use in choosing among different possibilities. According to the theory of utility the chosen element for an investor is the most useful from the set of possible choices.

The fundamental axioms that permit the construction of a utility function are:

- **comparativeness** that allows the investors to choose between two secure financial titles and two risky portfolios. Thus the first variant A is preferred to the second one B, if $A > B$, B instead of A, if $B > A$ or to be indifferent if $A = B$ and $B = C$ because $A = C$.
- **transitivity** makes possible the choice between three financial titles or portfolios. For instance the investor always prefers A instead of B or C, if $A > B$ and $B > C$ because $A > C$. The investor remains uninterested if $A = B$ and $B = C$ because $A = C$.
- **continuity** allows the investor to find another financial title or to make another portfolio represented by D if $A > B > C$ and there is a probability p for A, 1-p for C. For instance portfolio D is formed of A and C and has the probability 1 (p+1-p) and $D = B$;
- **independence** grants the investor's integration of two financial titles or portfolios equal with the same probability with another financial title or portfolio, finally obtaining other portfolios (for example). So if $A = B$ with probability p, there is C with probability 1-p that together with A or B will form portfolio D or E, with probability 1 and equivalents $D = E$.
- **monotony** permits the investor to form the initial portfolios A and B, to prefer one of the two, combining the two financial titles or portfolios C and D ($C > D$) with probability p and q ($p > q$). The result is $A > B$ and the investor prefers A.

The five axioms allow the construction of the utility function associated to the amount of money invested in financial titles or portfolios.

The function $U = f(R, \sigma)$ is an ascending function in report with R for any rational investor. This means that for $R_1 > R_2$ it results $U(R_1, \sigma) > U(R_2, \sigma)$.

In report with σ , the function can be descending for the investors with aversion to risk or ascending for the investors with appetite for risk.

The relation between utility and the capital invested in a portfolio expresses the investor's attitude in front of risk. This attitude can be one of the following¹:

- aversion against risk;
- indifference against risk;
- acceptance of risk

For the **aversion against risk**, the utility function has the following form:

$$U = a - b \cdot c^2, \text{ where } a > 0 \text{ and } b > 0, c = \text{gain}$$

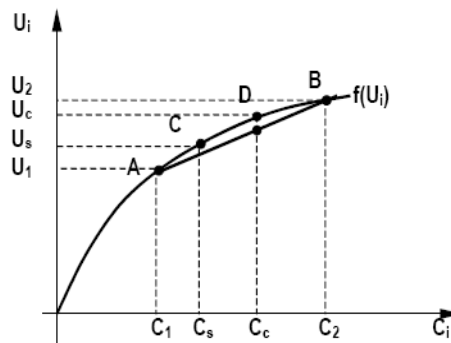


Figure no. 1 Utility and aversion against risk

From the graph's analysis we observe the following things:

- utility increases together with the increase in time of the invested capital;
- the rate of increase at a certain level of the capital is smaller than the rate of increase of the preceding levels;
- the marginal utility decreases.

The investors' reaction in front of the results of the expected utility viewed as a speculation (game), as against the secure results, qualifies the attitude against risk.

We suppose that the symbols from figure 1 have the following significations for the investor:

- the marginal utility is a "game" (speculation) between levels C_1 and C_2 ;
- the expected gain is $x_1 C_1 + x_2 C_2$ where $x_1 = x_2$ and $x_1 + x_2 = 1$;
- the utility of each result is U_1 and U_2 ;
- the expected capital is $C_s = \frac{C_1 + C_2}{2}$ and graphically is represented through the point that is situated in the middle of the right line AB with $A = f(U_1)$ and $B = f(U_2)$.

The expected utility for $U(C_s)$ is U_s . In order to determine the utility associated to a certain capital C_c a parallel crosses D point at the horizontal axis and the point where intersects the horizontal axis is U_c .

One can observe that **the expected utility associated to speculation (uncertainty) is always smaller than the one associated to certainty ($U_s < U_c$)**.

As a conclusion to this, aversion to risk is specific to the investors that accept the certain equivalences of smaller speculations than the expected values ($C_c < C_s$).

Aversion against risk is a geometrical drawing function as it follows:
 $U = a + bC$, with $a > 0$ and $b > 0$

The graphic of this function is presented in fig 2

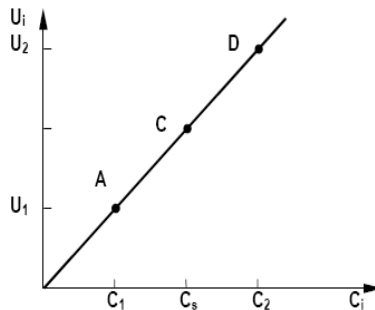


Figure no.2 Utility and indifference against risk

The increase in utility is constant for each successive increase of capital. The indifference against risk is characterized through:

- the investor's constant marginal utility;
- the certain equivalent of speculation equal to the expected value.

The acceptance of risk is not a geometrical drawing function but it has the following form:

$$U = a + b \cdot c^2, \text{ with } a > 0 \text{ and } b > 0$$

The repeated increases of capital determine increases with a higher rate of utility (fig. 3).

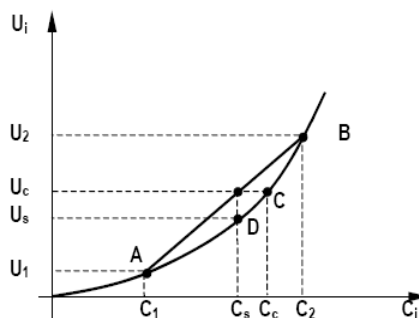


Figure no.3. Utility and acceptance of risk

Within figure no. 3 one can observe that the investor's level of aversion against risk is determined by the nature of the utility function.

The acceptance of risk is characterized through:

- utility increases at an increase of the invested capital;
- the speculation's certain equivalent is often higher than the expected value;
- there is paid a premium directly proportional with the speculation's dimension.

Within financial theory economic agents are considered to be characterized through aversion against risk. Taking into account these conditions, the criteria of

maximizing utility is equivalent with the criteria represented by profitability and risk (expectation for profitability – dispersion).

This criteria evaluates the final wealth and the combination associated to this, according to the correlation between the expectation of profitability and the dispersion specific to these.

In other way, more combinations with different expected profitability will have the same value if they have risks proportionally different and vice versa. Thus, it is nevertheless possible the configuration of some different combinations of forecast gains and risks that have the same signification for an investor. It results that each investor has a set of combinations of profitability and risk, that characterizes his rational behavior. The multitude of these equivalent combinations (with the same signification for an investor) is called *curves of indifference*.

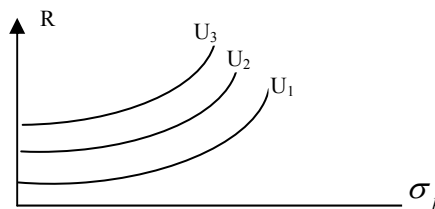


Figure no.4. Curves of indifference between profitability R and the risk σ for different utilities U_1, U_2, U_3

Certainly each investor does not have a single curve of indifference, but an infinite multitude. Each curve represents the multitude of the forecast gains and risks that have the same signification. Each investor will want to place the resources in order to obtain the greatest forecast utility.

In fig. 5 and 6 there are presented the curves for the utility functions that define the aversion against risk at different levels.

In fig. 5 the function's concavity is small and the certain equivalence for the speculated capital C_s is C_d .

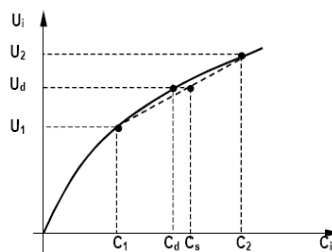


Figure no 5. A smaller aversion against risk

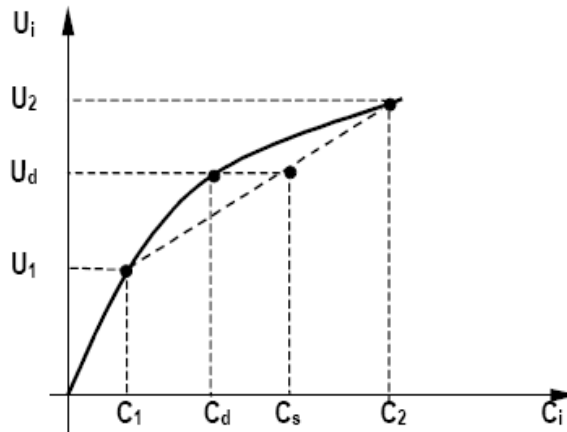


Figure no 6. A greater aversion against risk

In fig. 6 the function's concavity is greater and the certain equivalence for the speculated capital C_s is C_d .

The payment date for a speculation C_s can be calculated to determine the expected profitability of the investment. A greater aversion against risk has a smaller price, than a smaller aversion against risk. The profitability rate is calculated taking into account the following relation:

$$R = \frac{C_s}{C_d} - 1$$

where: R = the profitability rate of the invested capital;

C_s = the expected result of investment;

C_d = the investment's dimension.

It is obvious that the utility function with the greater concavity characterizes the investors that have a greater aversion against risk. In order to obtain the level of aversion against risk there must be measured the concavity of the utility function. Thus risk aversion can be both absolute and relative.

Arrow and Pratt have identified two indicators which can be used to measure the aversion's degree regarding the risk, namely:

- absolute risk aversion (ARA)
- relative risk aversion (RRA)

The absolute risk aversion measures the investor's reaction in front of the uncertain changes of his capital. For a particular capital's level or a utility's curve point, the absolute risk aversion is measured by the relative change which appears on the function's slope at that moment:

ARA ignores the level of possessions:

$$ARA = - \frac{U''(C)}{U'(C)}$$

U' = the first degree utility's function abducted in the utility's curve point corresponding to a level of the invested capital C

U'' = the second degree utility's function abducted

The relative risk aversion measures in percentages the capital's changes uncertainty:

$$RRA = -\frac{U''(C)}{U'(C)} \cdot C$$

Where C= the invested capital.

Between two investors who invest different capitals, the one characterized by a greater risk aversion is the one who has greater RRA. For an investor with a risk aversion, a RRA which decreases with the growth of the invested capital C shows a decrease of the risk aversion correlated with the growth of the invested capital.

For a financial product consumer it is expected that he is aware of the market products prices that he is interested in p_i (for example their stock exchange share rate, bonds etc) , has decided the consume budget B (the amount of money that he is willing to spend to buy the desired financial products) and he couches preferences meaning the utility which he confers to each consumed unit from a certain financial product , utility which he desires to be maximum.

We will note with $x_i, i = \overline{1, n}$ the amount from each financial products which the consumer has in mind.

From a mathematic point of view the combination of the financial products is described by the vector X:

$$X = (x_1, x_2, \dots, x_n)$$

Whereas the consumer's preference in the financial products space is expressed by the utility function $u(x)$ the pattern of choosing financial products by the consumer has the configuration:

$$\begin{cases} u(X) = u(x_1, x_2, \dots, x_n) \rightarrow \max \\ \sum_{j=1}^n p_j \cdot x_j \leq B, \\ x_j \geq 0, j = \overline{1, n} \end{cases}$$

The second condition of the problem is called budget restriction.

This is a mathematical programming problem, which resides in maximizing of a narrow concave function with linear restriction. The solution to such problem exists and it is unique. This optimum solution is called the balance point of the optimum choice of financial products made by the consumer.

The necessary and sufficient conditions to solve the problem are the Kuhn-Trucker conditions for the next Lagrange function:

$$\begin{aligned} L(x, \lambda) &= u(x) + \lambda(B - p \cdot x) = \\ &= u(x_1, x_2, \dots, x_n) + \lambda \left(B - \sum_{i=1}^n p_i \cdot x_i \right) \end{aligned}$$

The conditions are:

$$\left\{ \begin{array}{l} \frac{\partial L}{\partial x_j} = \frac{\partial u}{\partial x_j} - \lambda \cdot p_j \leq 0, \quad j = \overline{1, n} \\ x_j \frac{\partial L}{\partial x_j} = x_j \left(\frac{\partial u}{\partial x_j} - \lambda \cdot p_j \right) = 0, \quad j = \overline{1, n} \\ \frac{\partial L}{\partial \lambda} = B - \sum_{j=1}^n p_j \cdot x_j \geq 0 \\ \lambda \frac{\partial L}{\partial \lambda} = \lambda \left(B - \sum_{j=1}^n p_j \cdot x_j \right) = 0 \end{array} \right.$$

Here the partial abducted and the variables X_1, X_2, \dots, X_n are calculated in the optimum point $(x_1^*, x_2^*, \dots, x_n^*, \lambda^*)$

From the Kuhn-Trucker conditions results that if $x_j^* > 0$ then:

$$\frac{\partial u}{\partial x_j} - \lambda^* \cdot p_j = 0$$

meaning that: $\frac{\partial u}{\partial x_j} = \lambda^* \cdot p_j, \quad j = \overline{1, n}$

Therefore the marginal utilities are in proportion with the corresponding financial products prices.

Geometrically speaking, the previous property means that in the optimum point the normal vector $p = (p_1, p_2, \dots, p_n)$ of the budget hyper-plane and the utility function gradient vector $grad u(x) = \left(\frac{\partial u}{\partial x_1}, \frac{\partial u}{\partial x_2}, \dots, \frac{\partial u}{\partial x_n} \right)$ are collinear, meaning

$$grad u(x) = \lambda^* \cdot p$$

From the above conditions we deduce:

$$\frac{\frac{\partial u}{\partial x_j}}{p_j} = \lambda^* > 0 \text{ because it is supposed that } p_j > 0, \quad j = \overline{1, n}$$

Therefore the optimum Lagrange multiplier λ^* must be positive and then in the Kuhn-Trucker conditions we have:

$$\lambda \left(B - \sum_{j=1}^n p_j \cdot x_j \right) = 0$$

It results that all income is consumed to acquire the optimum combination of financial products.

From those previous stated we can draw the following conclusions:

- for every financial products consumer exists the utility function , which is his final purpose – to choose a certain financial products combination from the combinations available to him which best satisfies his needs;
- the base restrictions for a consumer are the financial restrictions: total costs for purchasing the financial products can not exceed the sum of his incomes;
- the consumer must divide the available income for investments in such way that the ratio between the marginal utility of the financial product and its price would be the same for all the financial products

The responsible consumers with a good financial education which can trustworthy buy services at the best prices represent an essential component of a unique efficient market. The consumers' capacity to take responsible and informed decisions has a positive impact on long term on both economy and society.

Given those reasons, the financial education must be promoted through all citizens because we all have to take important decisions in certain life situations:

When we ask for a mortgage or study credit, when we invest in stock or bonds market, when we take an insurance policy or when we make reserves for pension.

Nevertheless the intelligent management of personal finances is a true provocation for most people. For most of us it is difficult to keep our budget under control or to make realistic plans for the future. Moreover we are often unable to understand the risks and obligations of some very intricate financial products.

As a result of lack of financial knowledge it is very possible not to choose the products that best correspond to our needs.

Globalization process in the financial domain, even though initially structured around the similar one from the commercial sector has surpass by proportion and rhythm any expectations of the practitioners and theoreticians. The financial globalization effect is noticeable through the increase of the investment opportunities package, those not being limited anymore on national capital markets.

At the same time we can establish an intensification of international competition for investment opportunities that determined an explosive increase of international financial flows particularly in the last twenty-five years.

In conclusion financial education is extremely important for anyone. This way the consumers become aware of the existing financial risks and opportunities and can take decisions regarding the use of financial products.

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THE RETURN - A MEASURE OF ECONOMIC AND FINANCIAL PERFORMANCES. A CASE STUDY FOR ROMANIAN INDUSTRIAL COMPANIES

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Abstract: Measuring the economic and financial performances of a company is a very complex activity and involves taking into consideration several quantitative and qualitative indicators, which have in view the entire activity of the company. Out of all the economic and financial indicators used to measure the performances of the enterprises, in this paper we took into consideration the profit, in all its forms. The study was conducted on 17 Romanian industrial companies listed on BSE, for the period 2005-2007.

JEL classification: G32, G34

Key words: return, profit, performances, industrial enterprises

I. Introduction

Regardless its activity field, the activity of an enterprise can be characterized in terms of its effects and the way the objectives are achieved. In such a context, it is necessary to know which of the recorded results may be associated with the concept of performance, on the terms of respecting the restrictions imposed by the sustainable development. The diversity of terms of the concept of performance demonstrates that it is defined differently by the financial information users, according to their interests. Thus, the managers are targeting their company's overall performance, the current and potential investors assess the performance through the return on their investment, the employees are interested on the stability and profitability of the company, the creditors on its solvency, and customers, for the company's stability [4: 84]. Therefore, to measure a certain level of performances, a system of indicators is used, characterizing all sides of the activity run. Under this system, we emphasize the indicators that characterize the return, since they reflect the results obtained in all stages of the economic circuit.

The return, as a synthetic form of expressing economic efficiency, reflects the company's ability to generate a financial surplus, in the form of profit, from its activities. For the company, this is the condition for survival and development. In an open and competitive economy, a permanent pursuing of the return is set as a rule.

The return expresses the efficiency of the financial and material resources invested in the enterprise's global activity, measuring the profitability of the allocated means or their relative ability to bring profit. Analyzing the return means comparing the

results with the means used to achieve them. The main indicators used to express the return for a company are the profit and the rates of return.

II. Concepts and methodology

The profit is a component of the selling price of goods or services made by a company and it is determined by the expected profit margin [1; 35]. The profit is achieved when the overall revenues of a company exceed the total expenditures. According to some authors, the total costs should also include the so-called *hidden costs*, as the owner's wage, the rent of the own building used etc. [3: 145]. "Profit is a consequence of risk", a reward that the shareholder can receive for risking its capital.

In economic theory and practice we meet many forms of profit. In accordance with the revenue and expenditure structure from the Profit and Loss Account, we have the following forms of profit: operating profit OP, financial profit FP, current profit CP, extraordinary profit EP, total profit TP, net profit NP.

A profitable enterprise at first glance may face difficult situations that may lead to suspending activity. This vulnerability may arise from the inability of making payments as a result of lack of liquidities. Breaking up the result into its constituent parts (operating, financial and extraordinary result), as well as their correlated analysis reflect different situations in which a company can find itself, namely [1: 44]:

A. Full financial "health"

$$OP > 0, FR > 0 \Rightarrow CR > 0$$

It involves obtaining a positive current result on the basis of a positive operating and financial result. The graphic representation for this case is presented in figure no 1:

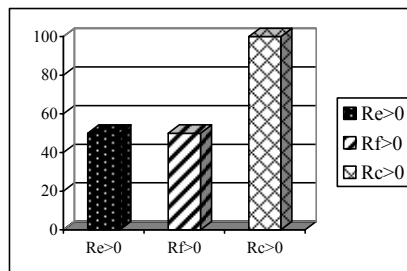


Figure no. 1 Full financial "health"

The following aspects are characteristic for this situation:

- ✓ the company has a strong position in the market;
- ✓ the operating activity is profitable;
- ✓ the financial policy not only allows the recovery of any possible financial expenditure, but also obtaining additional profits.

B. Classical situation

$$OP > 0, FR < 0, OP > |FR| \Rightarrow CR > 0$$

In this case, the current result is positive, due to a positive operating result, which allows coverage for loss arising from the financial activity. The graphical representation for this case is presented in figure no 2:

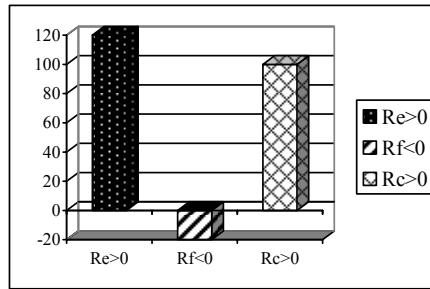


Figure no. 2 Classical situation

The following comments can be made:

- ✓ for industrial or services companies is a normal and common situation;
- ✓ the company has a profitable operating activity, part of the operating profit being used to cover the financial expenses;
- ✓ the risk the enterprise faces depends on the sustainability of the operating profit.

C. Financial "Blessing"

$$OP < 0, FR > 0, |OP| < FR \Rightarrow CR > 0$$

The current result is positive, as the surplus is generated by the financial activity only. The operating activity generated losses, which were covered however by the surplus account arisen from the financial activity. The graphical representation for this case is presented in figure no 3:

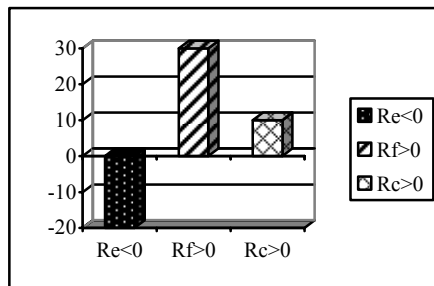


Figure no. 3 Financial "Blessing"

In this case, the following comments can be made:

- ✓ the positive current result arises from the substantial revenues resulted from the financial investments;
- ✓ there are losses in the operating activity which may have the following explanations:
 - an operating deficit reflects an alarming situation, despite the positive current result;
 - if the main source of income are the financial investments, then the operating losses are justified, given that a financial company, for example, should cover its compulsory operating expenses (administrative expenses, wages etc.).

- a company may abandon or reduce its operating activities, by transfers to another unit, if this one is the component of a holding company.

D. "Brinkmanship"

$OP < 0, FR < 0 \Rightarrow CR < 0$

The current result is negative, as the loss is generated by both the operating and the financial activity. The case is graphical represented in figure no 4:

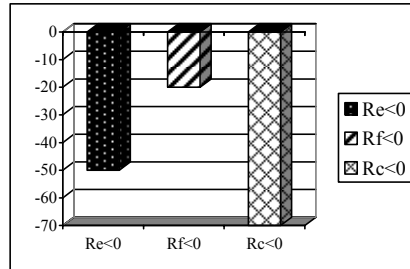


Figure no. 4 "Brinkmanship"

The following aspects are characteristic for this variant:

- ✓ the company is in real distress because of the losses recorded in the current activity;
- ✓ the operating activity is unprofitable, reflecting a poor management of the patrimony;
- ✓ the high financial expenses worsen the current deficit;
- ✓ it is necessary to define a strategy to restore the financial balance.

E. "Vicious circle" of financial expenses

$OP > 0, FR < 0, OP < |FR| \Rightarrow CR < 0$

The company records losses from the current activity, although it posts operating profit. The operating profit was however insufficient to cover the financial expenses, so as the company's activity is unprofitable. The graphical representation for this case is presented in figure no 5:

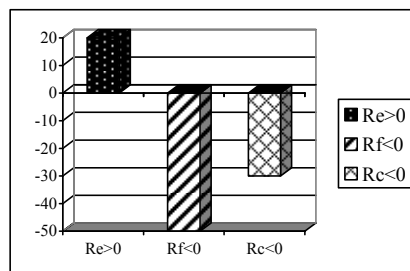


Figure no. 5 "Vicious circle" of financial expenses

In connection with this situation, the following comments can be made:

- ✓ if the enterprise is growing rapidly and the situation is temporary, it can be tolerated if only its situation will improve itself in the next period by increasing the operating profit;
- ✓ the high financial expenses can be explained by the debts incurred;
- ✓ the situation requires maximum caution as regards the risks and efficiency of the company's investments, financial and investment policies.

F. Financial incomes - the last "bastion"

$$OP < 0, FR > 0, |OP| > FR \Rightarrow CR < 0$$

The current result is negative, because the surplus generated by the financial activity was not sufficient to cover the losses from the operating activity. The graphical representation for this case is presented in figure no 6:

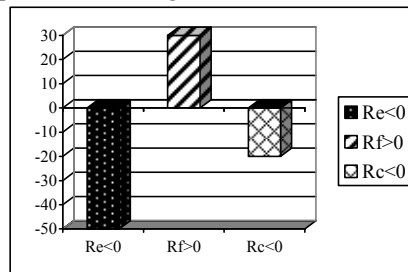


Figure no. 6 Financial incomes - the last "bastion"

Characteristic for this situation is that, although apparently there is a bad administration of the business, sanctioned by a poor current result, it may hide two economic realities, subtle at first sight, namely:

- ✓ the company faces a highly competitive environment, and the financial income derived from the investments partially cover trade deficiencies;
- ✓ the financial surplus and the current negative result can also be explained by the poor performances of a financial holding company oriented exclusively to making high-yield financial investments.

III. Results

To analyze the return of Romanian enterprises, we have selected a total of 17 industrial companies listed on the Bucharest Stock Exchange, for which we processed the financial statements for a three year retrospective period (2005-2007). Companies included in the survey are dispersed throughout the national territory and cover the main industrial sub-branches. They fall into the category of large enterprises, as they are representative for the sector they belong to. The identification data of these firms is presented in Appendix A.

For the analysis we used three indicators:

- the operating result;
- the financial result;
- the current result.

During the period considered, the analyzed firms had not recorded extraordinary incomes and expenditures. In these circumstances, the current result was

equal to the total result of the financial exercise, so the analysis was made on the basis of the latter.

The indicators analyzed were taken from the financial accounting statements of each company and can be found in Annexes B and C.

Analyzing this data, we found that in the year 2005 the 17 companies achieved a combined operating profit of 20,056,194 lei. Of these, 5 firms have registered losses from the operating activity, of which 4 have losses also from the financial activity, so that the total result for them was also negative. The fifth firm has achieved profit from the financial activity, which covered the loss from the operating activity, the overall result being positive. The other 12 firms had registered operating profit, while from the financial activity the firms had registered losses lower than the operating profit, globally companies recording profit.

In 2006, the combined operating profit increased to 84,739,719 lei, four times higher than that achieved in the previous year. Profit was also obtained from the financial activity, of 11,674,518 lei, the overall result being positive and increasing spectacularly compared with 2005. As regards the distribution of the operating profit on the companies, it is noticed that this year also, 5 companies had losses. Of these, 4 had losses in the previous year too, thus having profitability problems. SEVERNAV and ELECTROARGEŞ continued to obtain significant incomes from the financial activity, which have covered the losses from the operating activity, remaining only 3 companies with losses from the overall activity.

In 2007, the combined operating profit of the 17 analyzed companies continued to grow, reaching 125,750,423 lei. The financial activity has not generated profit any more, 14 companies had losses, so the overall profit was with 10.5% lower than the one recorded in 2006. This year, only 2 companies had losses from the operating activity, losses increased by the deficit recorded in the financial activity. Moreover, the financial loss registered by ROMCARBON could not be covered by the operating profit, this company also having a negative overall result in 2007.

Placing each analyzed company (depending on the operating result, the financial result and the total result) in one of the 6 categories listed above, we obtain the following distribution:

Table no. 1: The distribution of the analyzed companies by the correlation OP, FR, CR

Category		2005	2006	2007
OP > 0	A. - Full financial "health"	0	4	3
	B. - Classical situation	12	8	11
	C. - Financial "Blessing"	1	2	0
OP < 0	D. - "Brinkmanship"	4	1	2
	E. - "Vicious circle" of financial expenses	0	0	1
	F. - Financial income - the last "bastion"	0	2	0
Total		17	17	17

It is noted that most companies are in case B - Classical situation, in which the operating result is positive and large enough to cover the loss in the financial activity, thus resulting a positive overall result. In 2005, we find an important group of companies (4 companies) in case D - "Brinkmanship", for which both the operating result and the financial result have negative values. The situation changed in 2006 when

one company only is in this situation, two of them going in case F and another one in case A.

In 2007, the profitability of the 17 firms continued to improve, 14 of them having a positive overall result, finding themselves in areas A and B, 2 in case C (brinkmanship) and one in case E, when the overall loss was generated by the financial activity.

In conclusion, based on the absolute return indicators, during the period 2005-2007, a few companies encountered financial distress, but most fall into the category of profitable enterprises. In addition, during the considered period, the trend has been to improve the profitability of the firms, with benefic effects on their performance.

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APPENDIX

Appendix A: Companies selected in the survey

No	Company name	No	Company name
1.	ALBALACT	10.	MAT Craiova
2.	ARGUS	11.	PRODLACTA
3.	ARTECA	12.	ROMCAB
4.	ARTEGO	13.	ROMCARBON
5.	BEGA TEHNOMET	14.	SAMUS MEX DEJ
6.	DUCTIL	15.	SEVERNAV
7.	ELECTROARGES	16.	TRANSILANA
8.	IPROEB	17.	UPET
9.	LAFARGE AGREGATE SI BETOANE		

Appendix B: Operating Result and Financial Result

<i>Simbol</i>	<i>Re</i>			<i>Rf</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
ALBZ	4337646	6337738	9258126	-645787	985140	-5440685
UARG	-6298559	-10864370	8085581	-2968774	125746	-2872593
ARJI	-630461	29095109	2148267	-415753	3487	-301181
ARTE	4634040	8606667	17971164	-2358414	-2817674	-2805336
TEHO	931802	8745897	2528372	-727464	-353301	-1179504
DUCL	15849553	18583902	15146748	-63456	622770	2072286
ELGS	1114972	-374828	2536421	-792449	779557	-1295319
IPRU	4088813	17766607	28304163	-882487	-858802	908289
AGEM	4451114	14326481	21137441	-1106691	-1683797	-2555046
MAT	399742	2458840	13907238	-204718	-606636	-1200263
PRAE	1146545	812645	1280235	-795352	-317081	-680156
MCAB	1488760	1957300	1284834	-1376802	-138800	2290856
ROCE	4630954	5410004	4413896	-219121	198532	-5352984
SAMU	-1297750	-4130961	-9097980	-3694381	-2931830	-5821286
SEVE	-205063	-2172959	-1187314	1374338	15361093	-12811607
TRSK	982348	425310	1144562	-767950	-298165	-1053212
UPET	-15568263	-12243663	6888669	-3907049	3604279	-1314460
TOTAL	20056194	84739719	125750423	-19552310	11674518	-39412201

Appendix C: Current Result and Net Profit

<i>Simbol</i>	<i>Rc</i>			<i>Pn</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
ALBZ	3691859	7322878	3817441	3127564	6024614	3236032
UARG	-9267333	-10738624	5212988	-7719149	-10738624	5212988
ARJI	-1046214	29098596	1847086	-1046214	29098596	1847086
ARTE	2275626	5788993	15165828	1770833	4569291	12502822
TEHO	204338	8392596	1348868	96632	6809186	810859
DUCL	15786097	19206672	17219034	13356864	15758578	13887323
ELGS	322523	404729	1241102	24664	87319	1036217
IPRU	3206326	16907805	29212452	2342422	13801214	24892823
AGEM	3344423	12642684	18582395	2655068	10298718	16018014
MAT	195024	1852204	12706975	205710	1205466	10911231
PRAE	351193	495564	600079	210454	313059	380866
MCAB	111958	1818500	1720530	91177	1519800	1243672
ROCE	4411833	5608536	-939088	3714396	4790909	-974567
SAMU	-4992131	-7062791	-14919266	-4992131	-7062791	-14919266
SEVE	1169276	13188134	-13998921	1169276	12356750	-13998921
TRSK	214398	127145	91350	167864	79724	68745
UPET	-19475312	-8639384	5574209	-19643091	-8639384	5574209
TOTAL	503884	96414237	84483062	-4467661	80272425	67730133

ANALYSIS OF MUTUAL INFLUENCES OF SINGLE VARIABLES ON CROATIAN TOURISM RESULTS

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Abstract: The contribution of this paper is the analysis of economic influences of tourism and hotel industry on the economic growth of the Republic of Croatia. The aim of the paper is to analyze the problems of Croatian tourism in the period from 1985 to 2005. In order for the guidelines to be better determined, a statistical analysis of mutual influences of tourism variables will be performed. The statistical analysis in this paper includes average annual growth rates, the elasticity of tourist demand on anthropogenic events in the destination, the cyclic component of the GDP, and the influence of the GDP of hotels and restaurants on the overall GDP. Authors also presented the elasticity of single activities on the overall GDP and the influence of overnights and tourist arrivals on the total employment and employment in hotels and restaurants. The foundation for the acceptance of obtained results and their accuracy, as well as the justification of the set hypothesis, are the models of economical time series. The analyzed period is used into the focus because of the different and very strong influences on the Croatian tourism flows in above mentioned period.

JEL classification: O1, O47

Keywords: Tourism, Croatia, Influences, Forecasting.

Introduction

The prevailing trends on the European and world tourist market determine trends in hotel industry and tourism. It can be summed up to the following: modified needs, conditions of life and work, higher life expectancy, better informedness and informatization, greater need for safety and health, higher demand for adventure and innovative amenities, congressional contents, incentive offer and great events, as well as new traveling motives. Business hotels, wellness, boutiques, clubs, eco and bio hotels, historical and family hotels, all inclusive offer and brand hotels are only part of the leading trends in creating hotel offer. It is believed that they are going to differentiate further. Successful entrepreneurs have to follow trends and develop an action plan in keeping with the new demands, ways of thinking and need of the new global market. The speed with which the changes occur requires a constant evaluation in order to be able to keep up with the constantly changing market.

In suggesting a more efficient influence of entrepreneurship development on the whole Croatian economy, authors used methods of synthesis, analysis, abstraction, concretization, generalization, proving and disproving.

The methods of time series analysis and forecasting (endogenous and exogenous variables) will be used to mathematically formulate and determine quantitative relations between single economic variables and real information on economic variables using statistical methods.

The set economic hypothesis will be tested in order to help designing concrete measures of economic policy and forecast the future values of economic measures.

This paper did not analyze the whole tourism multipliers theory. It is difficult to determine the whole range tourism encompasses. It is not observed in the national economic activities classification but is a part of the theory of hotels and restaurants multipliers (encompassing the group NKD-55), which was last calculated for Croatia in 1987.

The development of entrepreneurship in Croatian tourism and hotel industry can and has to show stronger effects on Croatian economy. Entrepreneurship in tourism and hotel industry represents a driving force for Croatian economy. It stimulates employment, attracts foreign investments, increases the GDP and affects the growth of domestic production.

Analysis of mutual influences of single tourism variables

The statistical analysis will be founded on tables numbered as enclosures at the end of this text³⁶: number of tourists, foreign overnights, domestic overnights, total overnights, investments³⁷, tourist income³⁸, total GDP.

The variables have been studied in three periods. The first period goes from 1985 to 1990, the second encompasses 1990-1991, and the third period goes from 1992 to 2005.

Table 1. Average annual growth rate and the standard deviation of observed variables for the period from 1985 to 2005.

<i>VARIABLE</i>	<i>1st PERIOD</i>		<i>2nd PERIOD</i>	<i>3rd PERIOD</i>	
	<i>Growth rate in %</i>	<i>Stand. Deviation</i>	<i>Growth rate in %</i>	<i>Growth rate in %</i>	<i>Stand. Deviation</i>
	<i>1985-1990</i>		<i>1990-1991</i>	<i>1992-2005</i>	
Number of	<i>-3,50</i>	<i>6,40</i>	<i>-74,74</i>	<i>10,98</i>	<i>21,83</i>

³⁶cf. enclosures

³⁷Investments – represent foreign long-term direct investments (FDI – Federal Direct Investment) which are the fastest way to increase competitiveness. Made of capital, patents, knowledge, technology, know-how and greenfield investments.

³⁸Tourism income – total income from tourist consumption. The structure of direct tourist income is made of income realized in hotels and tourist villages (ensuring around 78% of the total income), catering income (around 20% of income) and income from marinas (around 2% of income). The data represent the forecast of the Croatian National Bank (www.hnb.hr) made on the basis of overnights in commercial accommodation capacities and an estimate of the remaining tourist turnover.

<i>VARIABLE</i>	<i>1st PERIOD</i>		<i>2nd PERIOD</i>	<i>3rd PERIOD</i>	
	<i>Growth rate in %</i>	<i>Stand. Deviation</i>	<i>Growth rate in %</i>	<i>Growth rate in %</i>	<i>Stand. Deviation</i>
	<i>1985-1990</i>		<i>1990-1991</i>	<i>1992-2005</i>	
tourists					
Foreign overnights	<i>-5,03</i>	<i>7,90</i>	<i>-85,22</i>	<i>13,70</i>	<i>31,20</i>
Domestic overnights	<i>-5,30</i>	<i>3,60</i>	<i>-68,70</i>	<i>3,43</i>	<i>11,00</i>
Total overnights	<i>-5,06</i>	<i>7,30</i>	<i>-80,66</i>	<i>11,58</i>	<i>24,80</i>
Investments	<i>-</i>	<i>-</i>	<i>-</i>	<i>21,50</i>	<i>53,80</i>
Income from tourism	<i>-</i>	<i>-</i>	<i>-</i>	<i>14,73</i>	<i>21,26</i>
GDP	<i>-</i>	<i>-</i>	<i>-</i>	<i>5,40</i>	<i>21,30</i>

Source: Author's own calculation

The variables analyzed in the first observed period from 1985 to 1990 point to negative trends. The cause of such trends was the economy of shortages, disinvestment process in the 80ies, a high inflation rate (especially in the late 80es) in the conditions of long-term economic stabilization programme.

The analysis took into consideration only the total number of arrivals because of a small influence of domestic tourists on the overall arrivals number. The total arrivals were stagnating from 1985 to 1987, while in 1988 and 1989 they drop, contributing to the average annual drop by –3.50% in the observed period. In the observed variable regarding the number of tourists the annual drop in 1989 was –6% compared to the previous year, while in 1988 it was –1% compared to the previous year. The average drop in the number of tourists in the said years was less than the drop of the overall overnights number, as is confirmed by the smallest standard deviation for the observed number of tourists variable. The average deviation from the arithmetic mean is 6.40%.

The lower number of arrivals in the observed period was accompanied by a lower number of overnights in the same period. Both domestic and foreign tourists contributed to the decrease in the number of total overnights. Due to a relatively smaller share of domestic overnights in the total number of overnights (1:6), the decrease of foreign overnights, especially in the period from 1987 to 1990, contributed to a higher standard deviation. The dispersion of value in the period from 1985 to 1990 was mostly felt in 1989 when the number of total overnights dropped by –8.10%. It was followed by the years 1987 and 1988 with a yearly drop of –1.26% and -0.08% compared to the previous two years.³⁹

The information on foreign direct investments in the observed period are not available since social ownership without any private initiative was dominating in that period. Hotel managers could not freely dispose of foreign currency, which, along with

³⁹Cf. enclosures, table no.6.

the process of disinvestment, did not contribute to the construction of new tourist capacities or the improvement of their quality. The gross domestic product as a standardized category it is today did not exist at the time and was therefore not analyzed in the observed period.

Income from tourism was also not monitored in the first observed period. As a matter of fact, these data are not easy to obtain since only the Institute for Tourism analyses this indicator. The second observed period is 1990 – 1991. It was the beginning of the War of Independence in Croatia when there was a steep drop in all the observed variables and was therefore considered separately.

The second period (1990-1991) saw huge average annual drop rates, which were most visible in foreign overnights. Under the influence of war and a high inflation the foreign overnights in Croatia saw an average annual reduction by –85.22%. These were followed by domestic overnights which registered an average annual drop by –68.7%, and tourist arrivals which went down by –74.74%. The year 1991 was even more significant than 1990 in marking these negative figures because it registered some drastic drops in absolute values. Variables thus proving that tourist demand is an elastic category and that it reacted to price market instability and the war as a factor of unsafety. The standard deviation for that period was not calculated because it was a series of only two years.

Just as in the first observed period, because of inexistent data, investments, GDP and tourism income were not calculated.

In the third period (1992 – 2005) all observed variables show growth. It is the result of the end of the war and the recovery of Croatian economy.

The growth rate of total tourist arrivals in the period from 1992 to 1994 was very low. In 1995, because of the military action “*Oluja*” there was a drop of around –30%. A notable growth did not appear before 1996 when there was an increase of 60% compared to the previous year. In the period from 1996 to 2005 there was a constant growth of tourist arrivals by 6.7%, except for a reaction of demand elasticity in 1999 when NATO forces attacked Serbia. The largest growth in the second half of the third observed period (1996-2005) was registered in 2000, with a growth of about 50% compared to 1999. Due to such oscillations, regardless of constant growth, except the mentioned 1995 and 1999, the average annual growth rate was 10.98%. The war years and the NATO attack caused a deviation from the arithmetic mean by 21.83%.

The total overnights in the period from 1992 to 1994 had a higher growth rate than that of the tourist arrivals, owing to the growth or arrivals and their longer stay in the destination. Just like the arrivals, the overnights did also decrease in 1995 because of “*Oluja*”. The factor that most influenced this decrease was the lower number of foreign overnights, by about –56%, while the domestic overnights dropped by only –2%. From 1996 to 2005, the total overnights were constantly increasing, with the only drop in 1999 due to NATO attacking Serbia. The movements of the variables of foreign and domestic overnights were differing in the third observed period. While foreign overnights followed the trends of the total overnights, the domestic overnights grew in 1996 and 1997, and gradually decreased in the period from 1998 to 2003. This was the result of the process of privatization and restructuring of Croatian economy and a very low standard of living of the population. Because of a smaller absolute share of domestic overnights in the total overnights, the standard deviation is small, around 11%. The average domestic overnights growth rate was the smallest in the third observed period, 3.43%. As opposed to the domestic overnights, foreign overnights had

an average annual growth rate of 13.70%, with a standard deviation of 31.20%. Contributed to such a standard deviation was in the year 1995 which registered a drop of –56% compared to the previous year, and the year 1999 with a drop of –18% compared to the previous year. The most significant growth of foreign overnights was registered in 1997, 51% compared to the previous year and in the year 2000 with a growth of 44% compared to the previous year.

The most important average annual growth in the third observed period was registered in foreign direct investments (21.50%), but with the highest standard deviation (53.80%). The reason for such high deviations from the arithmetic mean is in the sharp drops and growths of foreign direct investments in the observed period, which were dependent on the economic growth of the world powers⁴⁰ and on the political and economic situation in Croatia at the time.

Due to the transition to market economy in Croatia, and in spite of negative global trends, foreign direct investments were constantly growing. The growth is constant from 2001, with the only drop in 1995 caused by the war in Croatia. The year when NATO forces attacked Serbia (1999) did not have a negative impact on foreign direct investments which saw an increase that year by 37.5%. In the period from 2002 to 2005, a drop of –21% was registered in 2002, and –45% in 2004. What contributed to the decrease in foreign direct investments in that period was the slowdown of economic development of the world powers towards the end of the 90ies. The most significant growth of foreign direct investments was registered in 2003 with a growth of Greenfield investments and foreign takeover of domestic tourist companies.

The movements of income from international tourism depend on the realized overnights, especially foreign, as well as on tourist arrivals. For that reason, in the period from 1992 to 2005, this variable registered a constant growth, with drops in 1995 (*Oluja*) and 1999 (NATO attack on Serbia). *Oluja* had greater impact on income, with a registered drop of –26%, while the attack of NATO forces on Serbia caused a drop by –9% (table 2). In 2001 and 2002 there was a stagnation in income from tourism because of the terrorist attacks on the USA and some European countries, the war in Iraq, the SARS epidemic and the Tsunami. In that period, income from tourism was less dependent on the number of realized overnights (less overnights and more income). The reason for that was a change in the structure of tourists, with more tourists coming from Great Britain and USA, which have better purchasing power and spend more. Income from tourism had an average annual growth of 14.73% in the observed period (1992-2005), with a deviation from the arithmetic mean of 21.26%. The standard deviation was not high because there were no sharp oscillations in the observed period, except in 1995 and 1999 when there was a drop compared to the previous years.

The movements of the GDP in the third observed period registered an average growth rate of 5.40%, with a standard deviation of 21.30%. Since the independence of the Republic of Croatia, there were several periods regarding the movements of the GDP. These are:

- the period from 1992 to 1993, with a significant GDP drop and an average drop rate of –13.6%,
- the period of after-war recovery from 1994 to 1997, with an average growth rate of 6.4%, and 1998 and 1999 when we felt the consequences of a badly implemented privatization and restructuring of the economy. As a matter of

⁴⁰USA, Japan and some European countries

fact, the growth rate in 1998 was only 2.5%, followed by a real drop of the GDP by -0.9% in 1999,

- the period from 2001 to 2005, with an average growth rate of 4.7%, can be considered a period of a certain economic recovery.

Cyclical components of the variables – foreign and domestic overnights, income from tourism, investments and GDP, were obtained with Hodric-Prescott filter ($\lambda = 400$) because these are annual indicators. The regressions of these cyclical components on DUMMI variables = *Oluja* and NATO attack on Serbia. In that way we obtained the effect of these two phenomena on all shown variables with levels of significance, i.e. elasticity coefficients, for the periods from 1991 to 2005, showing to what extent dependant variables (foreign and domestic overnights, income from tourism, investments, GDP) can change if independent variables (*Oluja*, NATO attack on Serbia) change by 1%.

Variables were observed on the basis of the previously mentioned tables for the period from 1991 to 2005. The shown variables were tested taking into consideration the possibility to make a mistake in 5 percent of cases.

Oluja had a more significant impact on the observed variables than the NATO forces attack on Serbia. The foreign overnights dropped in 1995 by -56% compared to the previous year, while the domestic overnights only dropped by -2%. *Oluja* had a stronger impact on foreign overnights. In 1999 domestic overnights dropped by -1.3%, while foreign overnights dropped by -17.89%. From the previous table we can conclude that the NATO forces attack had less impact on foreign overnights than *Oluja*.

Table No. 2 Influence of *Oluja* and NATO forces attack on Serbia on the observed variables with a significance level (p – probability) for the period 1991 – 2005.

INDEPENDENT VARIABLES	DEPENDENT VARIABLES			
	Foreign overnights	Domestic overnights	Income from tourism	Investments In tourism
<i>Oluja</i> 1995	-0,470 (0,120)	0,036 (0,742)	-0,214 (0,166)	-0,917 (0,047)
NATO FORCES ATTACK IN 1999	-0,145 (0,385)	0,065 (0,559)	-0,158 (0,295)	0,789 (0,080)

Source: Author's own calculation

Income from tourism dropped by -26% in 1995 compared to the previous year, while in 1999 it dropped by -8.78% compared to the previous year. *Oluja* had greater impact on income as can be seen in the table.

Foreign direct investments dropped by -11% in 1995 compared to the previous year, but in 1999 there was a growth of 63% compared to the previous year. As shown by the table, *Oluja* had a significant impact on income but not so the NATO forces attack, when we actually registered a growth.

The following graph was chosen as an interesting source of information from which we make the following conclusions.⁴¹

Authors follow four periods in the graph:

1993 – 1995 - foreign overnights grow, domestic overnights and investments drop;

1995 – 1999 - all observed variables grow;

1999 – 2002 - foreign overnights grow, domestic overnights and investments drop;

2002 – 2005 - domestic and foreign overnights grow, as well as the investments which have a somewhat more moderate growth rate (there is no dependence from domestic overnights).

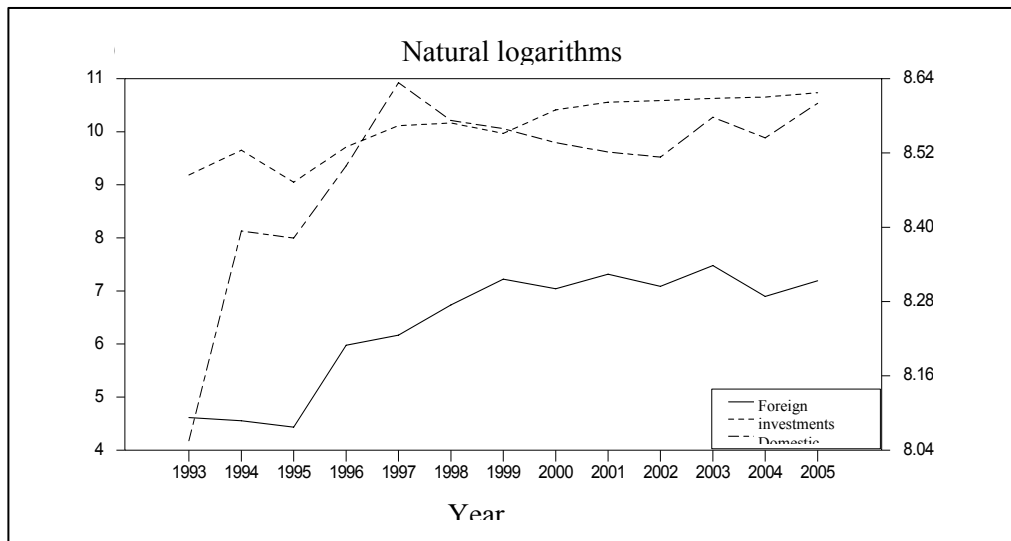


Figure no. 1 Relationship between foreign investments and domestic and foreign overnights

Conclusion is that there is an interdependence of investments and domestic overnights because with a growth in investments in a growing economy, GDP grows together with the living standard, which then encourages domestic tourists to travel. The future growth of Croatian economy will stimulate consumption and business traveling. Domestic tourism can generate a growth of income and a growth of employment in less developed parts of the country. The domestic market is important because it would encourage a development of the destinations and redistribute income.

Analysis of influence of tourism and hotel industry development on GDP

The GDP of hotels and restaurants in the overall GDP realizes a share of around 3%. The data show that the hotels and restaurants sector has a trend of faster average annual growth than the growth of total production in the Republic of Croatia.

⁴¹natural logarithms (\log_e or \ln) which represent the number which exponentiates the base of the natural logarithm ($e=2,718282$) in order to get a number x . $\log(2,718282) = 1,0$

However, it still does not satisfy the relatively low share of hotels and restaurants and their influence on the overall GDP.

The influence of the GDP of hotels and restaurants on the total GDP is shown in the following table.

Table 3. The influence of the GDP of hotels and restaurants on the total GDP in the period from 1990 to 2002 with a significance level (p – probability)

INDEPENDENT VARIABLE	DEPENDENT VARIABLE
	GDP
GDP of hotels and restaurants	0,148 (0,02)

Source: Author's own calculation

In the period from 1990 to 2002, the growth of GDP of hotels and restaurants by 1% did influence the growth of the overall GDP by 0.148%.

The following table shows to what extent economic activities (agriculture, hotels and restaurants, processing industry and trade) influence the total GDP, i.e. we present the elasticity coefficients for the period 1995 – 2002. In that period the economic activities were classified in the same way, and the data were taken from the Statistical Yearbooks.

The overall GDP and per individual economic activity is presented in current prices which had to be reduced to base prices. With the aid of chain CPIs (Consumer Price Indexes) found on the web page of the Croatian National Bank, we calculated the base indexes for the period from 1995 to 2002. We used a formula: $(x_1 - x_0) / x_0 \times 100 + 100$ where:

x_1 – chain index

x_0 – base index

The greatest impact on the growth of the overall GDP is that of agriculture. It is followed by the processing industry, trade and in the end, hotels and restaurants. The 1% growth of the hotels and restaurants sectors increases the overall GDP by 0.507%, which is only 30% of the impact of agriculture. In the trade sector we see a somewhat higher dispersion (0.024), but the hypothesis is tested with a 5% error margin and is, therefore, acceptable.

Table No. 4 Elasticity coefficients of individual economic activity on the overall GDP in the period from 1995 to 2002 with significance levels (p-probability)

INDEPENDENT VARIABLES	DEPENDENT VARIABLE
	GDP
Hotels and restaurants	0,507 (0,00)
Agriculture	1,635 (0,00)
Processing industry	1,524 (0,00)
Trade	0,645 (0,024)

Source: Author's own calculation

Results show, and the hotels and restaurants multiplier proves, that hotels and restaurants can contribute more to the growth of the overall GDP. Consumption in hotels and restaurants, as well as out-of-board consumption, have to be increased in order to have a multiplicative effect on GDP growth.

Analysis of the influence of tourism and hotel industry development on employment

The influence of tourist arrivals and overnights on the total employment and employment in hotels and restaurants was analyzed using the data from the table 5. The arrivals and overnights of tourists influence employment in hotels and restaurants just as they automatically influence the total employment. While an increase of tourist arrivals by 1% increases the employment in hotels and restaurants by 0.301%, the increase of tourist overnights by 1% influences the increase of employment in hotels and restaurants by 0.270%.

Table No. 5 Elasticity coefficients of the total arrivals and overnights on the total employment and employment in hotels and restaurants

(Year: 1985. – 2005.)

INDEPENDENT VARIABLES	DEPENDENT	VARIABLES
	TOTAL EMPLOYMENT	EMPLOYMENT IN HOTELS AND RESTAURANTS
NUMBER OF TOURISTS - ARRIVALS	0,065 (0,00)	0,301 (0,00)
TOURIST OVERNIGHTS	0,067 (0,00)	0,270 (0,00)

Source: Author's own calculation of significance levels (p-probability)

Tourist arrivals have more influence on the employment of hotels and restaurants than tourist overnights, while the arrivals and overnights have an equal influence on the total employment (tourist overnights have a slightly higher impact by 0.002%).

The arrivals have a greater impact on the employment of hotels and restaurants because hotels have to be ready for a number of arrivals in offering a high quality service, which can only be ensured with good employees.

Conclusion

Economic policy measures that should ensure a faster development of tourism and stimulate a growth of entrepreneurial activity in hotel industry and tourism do not have the expected positive impact.

Tourist consumption revives the whole economy and is a common denominator of various economic functions of tourism. From the point of view of potential, tourist consumption in Croatia is not high so that its effect on the overall economy is not so great. A higher tourist consumption in Croatia, on the grounds of its multiplicative

activity, would open new markets to most part of the national economy. The same would create the prerequisites for the growth of production, application of higher technology, better economizing and higher productivity. The main importance of the multiplicative effect of tourist consumption is that it stimulates the growth of national production and employment and thus forms new, higher income for the national economy in proportion to the increase of production. However, the multiplicative effects of tourism cannot be felt with such a poor and underdeveloped tourist consumption in the Republic of Croatia.

By including the overall economy in the tourist offer there is a whole new additional market as well as become part of the international market. The placement of goods and services is insufficient on the tourist market although it offers great possibilities to the economy, in other words, such kind of immaterial exports is a huge neglected foreign currency potential. Entrepreneurship affects the growth of investments and the structure of capital investments. Large capital investments in the development and modernization of infrastructure are important for the development of the economy in general and tourism and hotel industry in particular. Investments in hotels and other hospitality capacities directly affecting activities in construction business, industry, employment and therefore, the complete economy, are also of crucial importance. They strongly affect the engagement of private households in tourist destinations, which again has a strong effect on the reviving of economy.

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Enclosures

Table No. 6 Number of tourists and overnights in thousands in the period Year 1985 to 2007.

YEAR	NO. OF TOURISTS	OVERNIGHTS	average number of overnights
1	2	3	3/2
1985.	10,125	67,665	6.7
1986.	10,151	68,216	6.7
1987.	10,487	68,160	6.5
1988.	10,354	67,298	6.5
1989.	9,670	61,849	6.4
1990.	8,497	52,523	6.2
1991.	2,146	10,158	4.7
1992.	2,010	10,725	5.3
1993.	2,363	12,908	5.5
1994.	3,402	19,977	5.9
1995.	2,438	12,885	5.3
1996.	3,899	21,456	5.5
1997.	5,206	30,314	5.8
1998.	5,450	31,288	5.7
1999.	4,751	26,564	5.6
2000.	7,137	39,183	5.5
2001.	7,860	43,405	5.5
2002.	8,320	44,692	5.4
2003.	8,878	46,635	5.3

Source: Ministry of Tourism of the Republic of Croatia, <http://www.mint.hr/UserDocsImages/Podaci%20za%202007.%20godinu.pdf> - 17.05.2008.)

Table No. 7 Tourist turnover of foreign tourists - Year 2003 to 2007.

COUNTRIES	NUMBER OF TOURISTS					INDEX 07./03.
	2003.	2004.	2005.	2006.	2007.	
Germany	1.551.844	1.580.244	1.572.090	1.544.801	1.544.794	99,55
Italy	1.205.532	1.231.901	1.252.684	1.235.413	1.249.343	103,63
Slovenia	918.462	884.273	878.882	913.072	1.015.379	110,55
Czech Rep.	699.473	663.794	615.535	593.276	669.132	95,66
Austria	708.506	740.960	742.498	790.083	839.717	118,52
Hungary	356.139	403.443	453.395	402.782	381.202	107,04
France	220.636	392.911	591.098	505.139	473.806	214,75
Holland	299.345	212.090	243.651	241.856	264.664	88,41
Poland	237.968	240.654	241.868	275.845	322.890	135,69
Other	1.058.166	1.353.245	1.619.685	1.938.623	2.255.178	213,12

Source: Ministry of Tourism of the Republic of Croatia, <http://www.mint.hr/UserDocsImages/Podaci%20za%202007.%20godinu.pdf> - 17.08.2008.)

Table No. 8 Share of international tourism income in the overall services export/import Year 1993 to 2007.

INTERNATIONAL TOURISM INCOME	Share in GDP (%)	Share in tot. exports (%)	Share in services exports (%)
1993.	12,0	33,6	57,3
1994.	12,4	42,3	63,1
1995.	7,2	29,1	55,0
1996.	10,1	43,4	61,1
1997.	12,5	63,4	63,3
1998.	12,6	60,5	69,0
1999.	12,5	45,5	67,0
2000.	14,9	30,1	67,5
2001.	16,8	43,4	-
2002.	17,0	36,1	68,7
2003.	22,5	42,8	74,0
2004.	19,9	58,9	-
2005.	19,4	87,2	86,2
2006.	18,4		
2007.	17,9		

Source: Yearbook of Tourism Statistics, 2001. World Economic Outlook, 2002.; p.149 and author's own calculation.

Table No. 9 Foreign investments in the Republic of Croatia (in 000 kn) in the period Year 2000 to 2006.

YEAR	Investments in Croatia	Index	Investments hotel and restaurant	Index	Share
1	2	3	4	5	4/2
2000.	59.079.556	-	1.343.357	-	2,27
2001.	63.528.075	107,5	1.627.033	121,1	2,56
2002.	77.404.401	121,8	3.576.339	219,8	4,62
2003.	103.904.537	134,2	4.410.665	123,3	4,24
2004.	106.348.060	102,4	4.789.824	108,6	4,50
2005.	111.942.940	105,3	4.634.972	96,8	4,14
2006.	133.152.513	118,9	8.053.881	173,8	6,05

Source: Statistical Yearbook of the Republic of Croatia 2007, State Bureau of Statistics, 2008, p.167

Table No. 10 Annual needs for some foodstuffs in tourism

PRODUCT	TOURISM NEEDS	DOMESTIC PRODUCTION 2002	SHARE (%)
Fresh meat	10,000 t	105,031	9,5%
Cold cuts	4,000 t	43,735	9,1%
Concentrated soups	300 t	5,503	5,5%
Cheese	3,500 t	22,395	15,6%
Milk	8,000,000 l	694,000	1,2%
Eggs	65,000,000 kom	761,000	8,5%
Sugar	2,800 t	171,613	1,6%
Pasta	1,100 t	7,674	14,3%

Source: Statistical Yearbook 2003 for domestic production 2002, State Bureau of Statistics ⁴², Zagreb, 2003.

⁴² Estimate of the Ministry of Sea, Tourism, Transport and Development for the needs in tourism on the grounds of data on the consumption of several large hotel companies and on the basis of 55 million overnights

MANAGEMENT MODEL OF THE CORRELATION BETWEEN THE RATE OF INFLATION AND THE GROWTH RATE OF THE GDP

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Abstract: The lack of a horizon materialized in strategies of long-term macro-development, doubled by the inconsistency and incoherence of the monetary and fiscal policies, generally leads to the perpetuation of unbalances at macroeconomic level. Under these circumstances, measures of adequate macroeconomic management are required, and the use of statistic instruments is essential for the development of models of action based on a correlative approach of such phenomenon as the rate of inflation and the evolution of the GDP.

JEL classification: E1, E2

Keywords: economic growth, rate of inflation, evolution curves of the GDP, rate of growth, correlation.

The macroeconomic analysis requires taking into consideration the economic environment as a whole, with its periods of boom or recession, with the total level of production and of the services offered on the market, without excluding the price level and the cyclicity of their modifications – generating inflation most of the times and, unfortunately, quite rarely deflation, the level of labor which ensures the accomplishment of a certain level of production and, implicitly, the actual level of occupation. The purpose of all these is basically to provide on a long term a certain level of economic growth which, after all is ensured by actions carried out on a short term – actions materialized in fluctuations which generate production cycles (business cycles).

The rather chaotic evolution of the main indicators of Romania during the period after 1990, considered as synthetic results of the economy's condition, can be explained first of all by the inconsistency and the incoherence of the monetary and fiscal policies run by Romanian authorities (until the end of 2000), which are due to the lack of a horizon materialized in strategies of long-term macro-development. The economic leadership has been reactive and not programmatic, meaning that generally short-term solutions have been sought (with a great effect on the electorate) to suppress certain conflictual conditions in the economic or social area.

In addition, the transition required for Romania to reach two major objectives, which directly influenced the life standard potential of increase:

firstly, to develop the market economy system, to continuously generate the incentives for innovation, incurring business risks, the increase of productivity and competitiveness. This system must include the legislative frame, the institutions, as well

as the capacity to provide for the application of new regulations concerning private property, free initiative and the new role of the state in economy and the social life;

secondly, to restructure the former state enterprises in such a way as to become competitive, simultaneously with encouraging private initiative and foreign investors.

The experts appreciated that the processes of the Romanian economic transition have been “intensely mystified“, which only diverted the attention from the real causes of the Romanians’ low life standard.

A first example is represented by the evolution of the rate of inflation in our country. Another illusion, caused more or less deliberately (an illusion based on the reality confirmed in the developed countries, according to which, economic growth is necessary to provide a high life standard), was represented by the increase of life standard of the population simultaneously with a sustained economic growth.

In reality however, paradoxically, the economic growth in Romania is achieved in conditions which maintain or even aggravate the phenomenon of population’s poverty, such as: corruption, the tendency to generalize tax evasion, the distorted allocation of value for Romanian economy, between the different economic fields which participate in the realization of economic circuits (for example, it is least arguable the fact that the highest salaries in economy are encountered in the bank and the insurance fields, while the fields contributing the most to Romanian exports – textiles, ready-made clothes, furniture – have the lowest distributions).

The analysis of Romania’s macroeconomic indicators reveals an increase of the *gross national product* from one year to another, in current prices, an increase due however up to 2000 to a great depreciation of the national currency. Thus, during the period from 1993 to 2005, the gross national product has evolved oscillating, while the rate of inflation (except for the interval 2000-2005) was constantly at high levels, the industrial production continuously dropped, and the trade balance was marked by deficits each year, as a natural consequence of production reduction.

For this, a significant proof is the evolution curve of the Gross National Product comparatively to the rate of inflation (figure no. 1.)

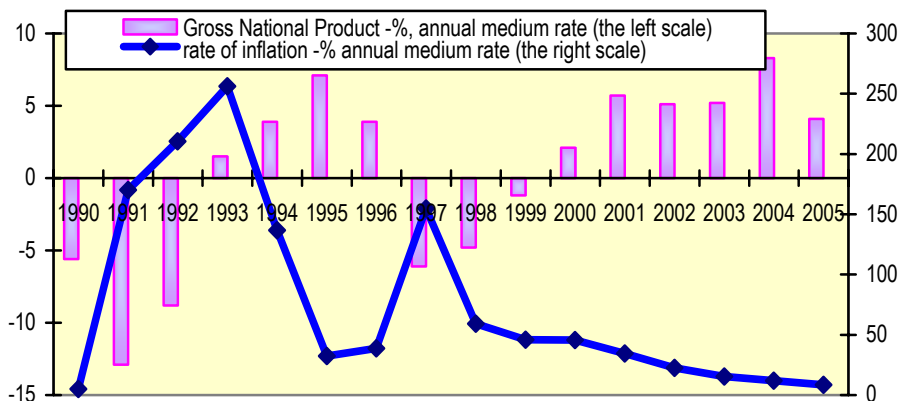


Figure no. 1. The evolution of the GDP and of inflation for the period 1990-2005

Source: Romanian National Bank, Annual report, 2005

Analyzing the graphic figure presented above, it can be noticed that the periods marked by negative economic growth (1990-1993) correspond to the periods of

increase of inflation, which is the most sensible indicator of the balanced condition and, inversely, the revigoration of the gross national product has announced a slight revigoration of the economy, characterized by the reduction of the rate of inflation (1995-1996 and 2000-2005). Unfortunately however the trend of these indicators was not maintained for the year 1997, when they marked the negative evolutions of previous years. Furthermore, the period of the years 1998-1999 was characterized by an obvious contradiction of the two indicators: the reduction of the Gross National Product, simultaneously with the reduction of the rate of inflation (an effect of a restrictive monetary policy). The re-establishing of the macroeconomic balance was achieved only after the year 2000.

The gross national product is a macroeconomic indicator which is being calculated both in current prices and in comparable prices, depending on which we can mention a normal evaluation and a real one.

The real evaluation requires the re-calculation in comparable prices (of the basic period) of the Gross National Product in the current period, with the deflator of the gross national product (D). This can be expressed by the relation:

$$GNP_1^{comp} = \frac{GNP_1^{crt}}{D}$$

(4.75)

The analysis we intend to carry out is developed for the period 1999 – 2005 and it targets evidencing a comparison between the rated evolution of the gross national product and the real evolution. For the mentioned period, the data concerning the gross national product and the deflator are presented in table no. 1.

Table no. 1. The evolution of the GDP and of the GDP deflator for the period 1999-2005

Indicators Years	GDP -billion Lei-	Deflator
1999	54,5730	-
2000	80,3773	1,443
2001	116,7687	1,374
2002	151,4751	1,234
2003	197,5648	1,194
2004	246,3717	1,158
2005	287,1863	1,114

Source: Romania's Statistic Annual, 2005

Analyzing the data in table no.1., it may be ascertained that for the period 1999-2005 there was an increase of the GDP, an increase which represents 232,6133 billion Lei as absolute value, which corresponds to a growth index of 5,262.

If we wish to carry out an analysis of the GDP expressed in current prices by reference to the previous period, we determine great fluctuations from one year to another at the level of absolute and relative modifications.

Table no. 2. The relative and absolute modifications of the GDP

Years	GDP	Relative modifications	
		$I_{n/n-1}$	$\Delta_{n/n-1}$ (billion Lei)
1999	54,5730	X	X
2000	80,3773	1,4728	25,8043
2001	116,7687	1,4528	36,3914
2002	151,4751	1,2972	34,7064
2003	197,5648	1,3043	46,0897
2004	246,3717	1,2470	48,8068
2005	287,1863	1,1657	40,8146

Source: calculated based on the data from Romania's statistic Annual, 2005

Analyzing the rated evolution of the indicators (by reference to the previous period), we ascertain an extremely high economic growth, if not even impossible from one period to another. For example, in 2000, as opposed to 1999, there is a growth rate of 47,28% (the equivalent of an absolute growth of 25,8043 billion Lei), in 2001, as opposed to 2000, the rate of growth was of 45,28%, which represents a 36,3914 billion Lei growth as absolute value. In 2002 there is a 29,72% growth, in 2003, a 30,43% growth and in 2004 a 24,70% growth, in a descending trend as opposed to the previous period, the decrease culminating at the level of year 2005 when there is a 16,57% growth. If we carry out the analysis by referring to the reference year 1999 without considering the influence of inflation, the obtained results will result in the unreal characterization of the economy.

From this point of view, it is necessary to recalculate the GDP values in comparable prices (the prices of the basic period = the year 1999), by using the GDP deflator. Practically we intend to determine the real economic growth by eliminating the most significant part of the inflation.

Thus there will be a GDP expressed in comparable prices for the analyzed 7 years (table no. 3).

Table no. 3. The evolution of the GDP expressed in comparable prices

Year	Compared GDP -billion Lei-
1999	54,5730
2000	55,7015
2001	58,8943
2002	61,9117
2003	67,6296
2004	72,8299
2005	76,2074

Source: calculated based on the data from Romania's statistic Annual, 2005

The real evolution expressed as relative and absolute values by re-calculating the GDP in comparable prices (*the reference year 2000*) records the following values:

Table no. 4 The real evolution expressed in relative and absolute values by recalculating the GDP in comparable prices

Years	GDP -billion Lei-	Indicators		
		$I_{n/n-1}$	$R_{n/n-1}$	$\Delta_{n/n-1}$ -billion Lei-
1999	54,5730	X	X	X
2000	55,7015	1,0207	2,07	1,1285
2001	58,8943	1,0573	5,73	3,1928
2002	61,9117	1,0512	5,12	3,0174
2003	67,6296	1,0924	9,24	5,7179
2004	72,8299	1,0769	7,69	5,2003
2005	76,2074	1,0464	4,64	3,3776

Source: calculated based on the data from Romania's statistic Annual, 2005

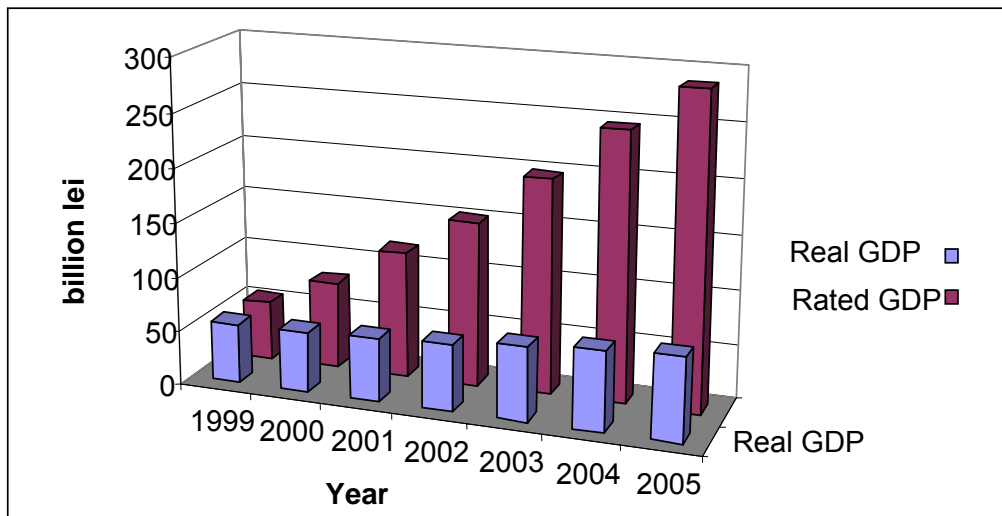


Figure no. 2. The evolution of the real and rated GDP in the interval 1999-2005

In the analyzed period we ascertain a maximum growth level of 9,24% accomplished at the level of year 2003 as opposed to the previous one, which corresponds to a value of 5,7179 billion Lei. During the period 1999-2005 a medium rate of growth of 5,72% was recorded $(\bar{R} = (\sqrt[n]{I_{n/1}} - 1) \cdot 100)$ which as absolute values corresponds to a medium increase of 3,6057 billion Lei $(\bar{\Delta} = \frac{\Delta_{n/1}}{n-1})$.

The relation between the rated GDP, the real GDP and the rate of inflation is:

$$I_{GNPn} = I_{GNPr} \cdot D, \quad (4.76)$$

a relation which will have the following form if it will be transferred in rates:

$$R_{GNPn} = R_{GNPr} + RI + R_{GNPr} \cdot RI \quad (4.77)$$

where: *RI* represents the rate of inflation calculated based on the deflator;

If a reduced inflation is being recorded, it is possible to exclude the last product with an insignificant value, and the rate of growth of the rated gross national product will depend on the rate of growth of the real gross product and of the rate of inflation. Analyzing the period of 1999-2005 we ascertain a constant growth of the GDP from 54,5730 billion Lei to 76,2074 billion Lei simultaneously with a reduction of the rate of inflation from 45,8% at the level of the year 1999, to 9% for the year 2005.

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THE FINANCING OF THE FIRM BY BONDS AND ITS COST

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Abstract: Through this present paper there are presented a few aspects concerning one of the instruments of medium and long term debt which can be used by companies, and that is the bonds credit. So that, after a short presentation of the framework in which this debt method can be used, there are presented the conditions that have to be fulfilled so that a company could have access on the bonds market. A large space is occupied by the parameters of the issue of bonds. Though the cost of debt capital may seem at first glance simple, even trivial to determinate, there are conceptual problems in the calculation. In our work we are concerned with finding the cost of bonds credit.

Key words: bonds, credit, cost, firm, capital market

Jel classification: G31, G32

Some aspects concerning financing of the firm by bonds

Together with the equity and the financing by means of bank loans, important sources of financing from outside the company are attracted appealing to the public savings that is the bond financing.

For any company, in some situations, the equity is insufficient to cover the financing needs, and its growth (by new cash subscription or by the incorporation of the reserves) may encounter difficulties, not only from the juridical point of view but mostly from the inherent risks related to the potential investor's trust in the issuer of shares and those related to the possibility of losing control for the old shareholders. In addition to that, contracting bank loans implies for the company, sometimes, more restrictive conditions to be fulfilled. These are the reasons that determine the companies, especially the big ones that are marketable, to apply to bonds financing.

For the countries where this means of capital mobilization is an usual practice, the issue of bonds, as a means of attracting the public savings, is preferred mostly by small and middle companies unquoted on this market section, and the issue takes place by the association of these firms to contract bank loans in common name. In the latter case, the issue takes place by the association of many firms that guarantee the loan together, by means of some institutions and collective emplacement agencies, that allocate the attracted capital as loans for the issuing firms. There are situations when even the big firms use this technique, especially when they have relatively reduced financial needs and they don't wish to spend the confidence capital to the public through individual credits, reserving this option only to attract large amounts of money from the market.

At first sight, one might appreciate that a total capital growth by means of the issue of bonds has a bad influence on its financial structure toward the growth of the balance of debts in the total capital. But, in fact, such a procedure has a series of benefic effects over the firm because it connects it, in a durable way, to the capital market, with serious implications in the dynamic adjustment of the capital cost, in the dynamics of the capitals and in the transparency of the external image offering in the same time, new values to the programming of the production activity and to the investments.

There are several *conditions* to be fulfilled in order to have access to bonds financing market:

- it has to be a joint-stock company;
- the firm has to have at least two or three years of activity reflected in the balance sheet approved by the shareholders;
- the issue of bonds by public offer is made on the basis of a prospect of issue;
- the value of the subscribed bond financing has to be completely subscribed.

These requests are specified in the 31/1990 law regarding Commercial Firms republished and modified.

The bonds can be issued in a material form, on paper, on an abstract/unembodied form, by account subscription.

Therefore, as a specified form of the loan, the bonds loan supposes the materialization of the debentures over the issuing firms as securities called bonds.

Therefore, we can define the **bond** as a **securities** that proves that a medium or long term loan that the issuer obliges to repay in a determined period of time, that gives the right to its owner (the creditor of the firm) to a certain annual interest, during the whole period, no matter the economic or financial situation of the issuer.

The issuing company of the bonds establishes, through consulting with the mediation company and based on the its own needs of financing the characteristics (**parameters**) of the issue:

- *the par value of the bond* equals the part of the landed amount/stock, represented by each bond. The par value, as mentioned before, is established by law. The bonds from the same issue must be of an equal value, to give the owners equal rights. *The par value of one bond cannot be smaller than 2.5 RON*, except for the par of the bonds convertible in stock, that have an equal value with the stock. The convertible bonds can be turned/changed in shares of the firm that issued them, in the conditions established in the public offer prospect. A small par value presents the advantage to bring foreword the transactions and the inconvenience of complicating the commercial data processing of the debts.

- *the issue price* represents the amount paid by the buyer to become the owner of the bond. In some cases, the issue price equals the par value, and in other situations, as, for example, the need to speed up the bond sale, there is a difference between the par value and the issue price (the par value may be bigger than the issue price), called *issue premium*. Sometimes, to make the bonds more attractive, or when the period is big, they are returned when due time at a bigger price than the par, the difference being called *returning/repayment premium* (returning premium - par).

The issuing and returning premiums, the payments concerning the bond issuing and the remuneration for the personnel that ensures the bond sale, decide a cost of the credit higher than the nominal interest.

When the issue of bond financing is *underpar*, and its return is at a higher value than the par, both a issue premium and a returning premium will appear.

- **the numbers of bonds;**
- **the total amount of the bonds financing,** is obtained by multiplying the issue price with the numbers of bonds, i.e., practical, the amount which is financed the firm;
- **the data of use** is the date when the interest begins to flow;
- **the data of regulation** is the date when the investors deposit the amounts for the bonds financing;
- **the amount of the interest.** The issuer remunerates the borrowed amounts, with a periodic interest on a detachable bond coupon. The interest is determined by multiplying the par value (V_N) with the rate of interest established by the issue process (d). So, the average calculating operation is:

$$\text{Interest} = \frac{V_N \cdot d}{100} \quad (1)$$

- **the life period, the frequency of payments and the returning modalities.**

In the financial practice, there are used many returning ways. A bond may have one or more specifications for amortization. Generally there are:

- a) the normal amortization of the loan;
- b) the amortization with specifications for the return with anticipation.

The cost of the bonds credit

We assume that a company contracts debt in total of D , and commits (promises) the reimbursement to its' creditor the annuities A_i , $i = \overline{1, n}$.

The cost of the loans (debts) can be measured through the discounted cost used both in the selection between more possibilities of loan, but also in determining the weighted average cost of capital.

The discounted cost of the loans is given by this discount rate, r_d , that allows the equality of the sum of the contracted debts, in our case D , with the annuities (reimbursement rates and interests) discounted with this rate, as follows:

$$D = \sum_{i=1}^n \frac{A_i}{(1+r_d)^i} \quad (2)$$

In the following, we will part the annuities keeping in mind the incidence of the profit taxes and if the reimbursement is made entirely and the end of those n years, proportionally in time, or in more "delicate" situations, uneven in time.

In this way, **under the incidence of the taxes**, the interests are deductible of the taxable profit and the real load undertaken by the company is smaller, that is if the debtor company is profitable, the interest that it will deliver each year to its lender will allow realizing tax shield.

So, if considering T = the corporate tax rate, we have the follow relations:

- *with the reimbursement of the whole amount at the end of those years:*

$$D = \sum_{i=1}^n \frac{D \cdot d(1-T)}{(1+r_d)^i} + \frac{D}{(1+r_d)^n} \quad (3)$$

- *with the reimbursement uneven in time:*

$$D = \sum_{i=1}^n \frac{D_i \cdot d(1-T) + R_i}{(1+r_d)^i} \quad (4)$$

where:

d = the nominal rate of the interest (in percentage);

R_i = the amortization from the year 'i' (the yearly reimbursement rate);

D_i = the credit sum remained at the beginning of the year 'i'.

Between R_i and D_i the following relations are valid:

$$\begin{cases} D_1 = D \\ D_2 = D_1 - R_1 = D - R_1 \\ D_3 = D_2 - R_2 = D - (R_1 + R_2) \\ \dots \\ D_n = D_{n-1} - R_{n-1} = D - (R_1 + R_2 + \dots + R_{n-1}) \end{cases}$$

▪ with the proportional reimbursement in time:

In this case $R_1 = R_2 = \dots = R_n = R = \frac{D}{n}$ and so the relation becomes:

$$D = \sum_{i=1}^n \frac{D_i \cdot d(1-T) + R}{(1+r_d)^i} \quad (5)$$

In the mentioned relations the expressions $D_i \cdot d$ and $D_i \cdot d \cdot (1-T)$ represent the *paid interests* respectively the *supported* by the company.

A special observation must be made, especially under the current circumstances in our country, and that is that as long as the interest rate can be fixed or variable, this has a special influence on the interest flows. In the first case, the interest flows are known from the beginning, and in the second case, these can only be estimated with a certain probability.

Also, given the fact that there are a series of expenses tied to the administration of the loan, the debtor supports in addition to the reimbursement annuities these expenses also and these expenses (if they have to be paid prior to the moment of the loan granting) and the credit that it receives is diminished with the sum correspondent to these expenses (if they must be paid in the moment of the credit granting). Even if those expenses are not effectively supported from the respective credit, they have a direct connection with it, and in order to know exactly the cost of a loan they must necessarily keep in mind these expenses that sometimes can reach considerable amounts.

Regarding **the cost of the bonds credit**, the formulas established prior are valid and are applied here without difficulties. The only problem "more delicate" appears when the compulsory loan is emitted with *an emission premium*.

We consider a company that emits N bonds, with the nominal value V_N and with the emission price P_E , with $P_E < V_N$. The effective cashed amount is $N \cdot P_E$. But the company has the possibility to diminish the amount of the taxable profit with the difference between the nominal value and the emission price, while the emitted bonds are reimbursed at their nominal value. If the company reimburses the respective amount of N_i obligations in the year "i", it can diminish the taxable profit with an amount equal to the emission premium paid to these bonds, i.e. $N_i \cdot (V_N - P_E)$. This calculated diminish, allows, if the company is profitable, to accomplish a tax shield, i.e. $N_i \cdot (V_N - P_E) \cdot T$.

So, the cost of bonds credit, r_d , obtained with emission premium, is solution for following equation:

$$N \cdot P_E = \sum_{i=1}^n \frac{A_i - N_i (V_N - P_E) \cdot T}{(1+r_d)^i} \quad (6)$$

where A_i is annuity what must be reimbursed, computed in the same way like for credit bank on medium and long term.

Conclusions

Resorting to the bond financing has both advantages and a series of limits:

As *advantages* we can cite:

- it allows the procurement of some important amount of money to make some large scope investments;
- putting aside the banks and the expenses to remunerate them in the process of getting the equity for production;
- obtaining a bigger net result than the one that would have been obtained if the bond financing value had been the result of the shareholder's equity growth (the gain of net profit equals the savings from the income tax for the interest paid for the bond financing, that are deductible), with direct implications over the relative cost of the bond financing;
- the debt cost is absolutely limited, and the creditors do not take part of the profit growth except for some situations;
- the bonds give the holder no power of decision inside the enterprise, the shareholders not being forced to share the control when they use the debt financing;
- the possibility to withdraw the old bonds, when the possibility of a new bond issue with a lower interest rate;
- the possibility to ransom on the exchange markets their own bonds at the market price (if the ransom price is lower than the par, the enterprise would gain profit).

The *limits* refer to:

- no matter the firm situation, the debts from the bond financing are a fixed expense, the firm paying periodically the interest obligatorily;
- it has a higher risk than other financing forms;
- the annuities that have to be refunded have an exact maturity date, a moment when the enterprise might be caught on the wrong foot as far as liquidities are concerned, and even if they do exist their diminution inevitably takes place;
- in the case of an economic recession, the bond financed firm would have big difficulties to make the payments as compared to the case of share issue financing;
- the contractual relation on a short and medium term inherent to a bond issue imposes much more restrictive specifications in comparison with the share issue or the case of the short term loan/credit;
- the risk of not subscribing the bonds, and, as a consequence, the loss of the investment opportunities might drive, sometimes, to difficulties for the enterprise and, why not, to its bankruptcy.

As for Romania, we consider that we can speak only theoretically about a bond market, because :

- the securities market where the bonds are issued and circulate is insufficiently developed, having a lot of syncope, not functioning continuously as a very active market in this direction;
- people's lack of trust in firms, because even firms that believed themselves to be very solid were bankrupt;
- the people's habit to work with banks (more than that, there is the guarantee of collecting an amount of money as refund in the established guaranteed limit if bankruptcy occurs) and the temptation of currency investment and state titles in the last

few years. But, once with the drastic deflation of the deposits interest rates and with the sinuous evolution of the exchange rate we can also expect a sense of direction of the firms and natural person towards the types of investment like shares and bonds.

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