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The cause of the economical crisis – the lack of the long time economical memory?

Nouriel Roubini - the specialist who anticipated the actual economical crises said: "Crises are inlaid in the genetic code of capitalism". In other words, capitalism without crises it is not possible. He also said that "in future we expect more serious economic crisis..."

A few questions soon arise:

Why the capitalism without crises is not possible?

What are the causes?

To find out we can do a retrospective of the major economic crises until now. If we do that we can clearly see that there are some similarities for causes and for the solutions used to stop them.

Why is happened again? If we already had other crises with similar pattern why we fall again?

For a possible answer we can analyze again how in fact an economy works. If we simplify we can extract some ideas:

- 1. An economy exists because of the population.*
- 2. A population has needs. This create an opportunity for economical agents (the engine of the economy) to earn by fulfilling these needs (the objective of the economy).*
- 3. The balance between effort and gain it is possible because of the money (the binder).*
- 4. When the needs of the population are changing, the economical agents must keep up. They need to adapt quickly but not always they succeed. They need rapidly to earn sufficient money to adapt and develop. This need create a new opportunity for a special category of economical agents – the financial agents (the catalyst). Their role is to redistribute the money in the economy and make the cycle to go faster.*

If all this elements do what they normally must do the economy is developing, but what is happening when an element do not work like usual? What is happening for example when the catalyst does not work like a catalyst? Like in a chemical reaction without catalyst the chemical process will slow down or will stop, the economy will do the same.

All crises until now had a root to the financial system. Also the roots of the actual economical crises are in the financial system so this fact is not new.

What is happening when an element increase its size too much? Its activity will affect a large proportion of the rest of elements. The size does matter in the economy.

Why we always forgot that?

Because we only have a short time economic memory? This kind of memory usual covers a period of time corresponding from one up to three generation of peoples and often it is limited to specific geographic areas. We need to cover more than that.

As a population we did not had time to develop a long time global economic memory. This kind of memory can appear only if we succeed to always transmit all the essential economical informations from a generation to other.

We can do that with a new way of thinking, with an improved economical educational system and with a new way of recording, organizing and accessing the economical informations.

Assoc. Prof. Ph.D Costel Ionascu.

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CAPITAL STRUCTURE AND ITS IMPACT ON PROFITABILITY: A STUDY OF LISTED MANUFACTURING COMPANIES IN SRI LANKA

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Abstract: Capital structure is one of the most complex areas of financial decision making due to its interrelationship with other financial decisions variables. Capital structure is the composition of debt and equity capital that comprise a firm's financing its assets and can be rewritten as the sum of net worth plus preferred stock plus long-term debts. In this study an attempt has been made to analyze the capital structure and its impact on profit earning capacity during 2003 to 2007 (05 years) financial year of listed manufacturing companies in Sri Lanka. The results shows that debt to equity ratio (D/E) ratio is positively and strongly associated to all profitability ratios [gross profit ratio (GPR); operating profit ratio(OPR); and net profit ratio(NPR)] except return on capital employed (ROCE) and return on investment (ROI). Debt to assets (D/A) ratio is positively and strongly associated to OPR, NPR and ROCE. Similarly capital gearing (CG) ratio is also positively correlated to GPR and NPR. Further, interest coverage (IC) ratio is significantly correlates to ROCE and NPR. Further capital structure has a great impact on all profitability ratios except ROCE and ROI. The outcomes of the study may guide entrepreneurs, loan- creditors and policy planners to formulate better policy decisions in respect of the mix of debt and equity capital and to exercise control over capital structure planning and thereby to control and reduce bankruptcy costs.

JEL classification: M1; M4: M41

Key words: capital structure; profitability; manufacturing companies; financial decision

1. Introduction

Of all the aspects of capital investment decision, the capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. Hence, proper care and attention need to be given while determining the capital structure decision. In the statement of affairs of an enterprise, the overall position of the enterprise regarding all kinds of assets, liabilities are shown. Capital is a vital part of that statement (hereafter called Balance Sheet). So, virtually, capital structure is a part of financial structure. The term 'capital structure' of an enterprise, is actually, a combination of equity shares, preferences shares and long-term debts. This term may be

defined in two senses, viz. Narrow and wider. According to Bierman and Smidt and Guthman and Donglalls capital structure is the relative proportion of the various kinds of securities a company has used. The opinions of Taylor and Venhorne regarding capital structure is that is the total sum of outstanding long-term securities, both equity and debt. Weston and Bringham (1978) define it as the permanent financing of the firm represented by long-term debt plus preferred stock and net worth. Though there are different views about the total nature of 'capital structure' it is obviously true from the fact that everybody has agreed about the common items, i.e. total of equity and long-term debt which represent the permanent source of financing of a company. Therefore, capital structure may be defined as the permanent source of capital in the form of long-term debt, preference shares, ordinary shares, reserve and surplus.

Theories of Capital Structure

The literature of finance is replete with analysis of the corporate financing decision with regard to the optimal mix of debt and equity [Wilson, (1974) as quoted by Hoque, (1987)]. The more important theories in this regard are found those of David Durand, Ezra- Soloman, Modigliani and Miller, Schwartz, Childs and the like [Hoque,A.K.M.Z, (1989)]. Out of these theories a short description of the first three is given below. Basically there are three schools-one advocated by Ezra-Soloman and the other by Modigliani and Miller which is just opposite to the Soloman's theory. The third one i.e the David Durand's theory occupies the middle position between the first two.

Ezra Soloman's Approach – The Traditional Approach

Soloman [as quoted Mahmud and Bhattacharjee (1989)] who led traditional view point believes that a judicious use of debt increase the value of a firm and reduce the cost of capital. He is in the opinion that there is a definite impact on firm's total market value when leverage is charted. According to the traditional, until gearing reaches at an optimal point, the financial risks of debt is more than the benefit offered by the introduction of that debt.

Modigliani-Miller Approach

Modigliani-Miller (Hereafter referred to as MM) (1958; 1959 and 1963) who in a series of justly famous article provided a rigorous justification for the Net Operating Income (NOI) method. M&M analysis implies that firms are indifferent concerning the method of financing (all combinations of equity and debt are equally good) if there are no taxes, vat with corporate taxes, firms should be financed with virtually all debt. However, the MM model assumes away many factors that can imply that a particular blend of debt and equity financing is but for a given firm (Lawrence, 1986). If we want to draw a conclusion of MM analysis, this can be done by giving the following two summarized results of the same.

The only benefit of debt financing (relative to equity financing) is the reduction in corporate income taxes due to the tax deductibility of debt interest.

There are no disadvantages of debt financing relative to equity financing (Lawrence, 1986).

David Durand Approach

David Durand [Weston and Brigham, (1978)] identified the two extreme cases such as Net Income Approach (NI) and Net Operating Income Approach (NOI). Under the NI approach independent of the capital structure, but the weighted average or overall cost of capital decline and the total value (value of equity plus value of debt) rises, with increase use of gearing. Under the NOI approach, the cost of equity increases, the weighted average cost of capital remains constant and the total value of the firm also remains constant as gearing is changed. Thus, if the NOI approach is the correct one, gearing is an important variable and debt policy decisions have a significant influence on the value of the firm. However, if the NOI approach is the correct one, then the firm's management need not be too concerned with financial structures because it simply does not greatly matter.

Standard Ratios of Capital Mix

The question of evolving or proper ratio or debt-equity is not merely academic, as the consequences flowing from it are vital and have a direct bearing and the profitability of the undertakings and the image they project (Hoque, 1989). But practices are different from theory. Practically what we see is that there are no universally acceptable ratios. Moreover, no uniform ratios are also indicated by researches but it is true that, any wrong fixation of debt-equity ratio tends to escalate the losses or decrease the profits earned by the undertakings. Leo (1979) has suggested same ratios for the selected industries to express standard of debt-to-net-worth. These are as follows (1) The Capitalization Standard (debt capacity is expressed in terms of the balance sheet relationship between long-term and the total of all long-term resources, i.e., total capitalization); (2) The Earnings Coverage Standard (it is also become customary to express the limits of debts in terms of income statement data); (3) The Cash Adequacy Standard (It is based on the concept that debt limits should be determined by a measure of the risk of the firm's running out of cash, particularly in session period considered in the light of the stockholders managements willingness to bear risk in the interest of future profitability).

Literature Review and Previous Studies

The essence of financial management is the creation of shareholder value. According to Ehrhard and Bringham (2003), the value of business based on the going concern expectation is the present value of all the expected future cash flows to be generated by the assets, discounted at the company's weighted average cost of capital (WACC). From this it can be seen that the WACC has a direct impact on the value of a business (Johannes and Dhanraj, 2007). The choice between debt and equity aims equity to find the right capital structure that will maximized stockholder wealth. WACC is used to define a firm's value by discounting future cash flows. Minimizing WACC of any firm will maximize value of the firm (Messbacher, 2004). Debt policy and equity ownership structure 'matter' and the way in which they matter differs between firms with many firms with few positive net present value project. Ross's (1977) model suggests that the values of firms will rise with leverage, since increasing the market's perception of value.

In their second seminal paper on corporate capital structure, Modigliani and Mill (1963) show that firm value is an increasing function of leverage due to the tax deductibility of interest payments at the corporate level. In the 30 years since, enormous

academic effort has gone into identifying the relevant costs associated with debt financing that firms presumably trade off against this substantial corporate tax benefit. Although direct bankruptcy costs are probably small, other potentially important factors include personal tax, agency cost, asymmetric and corporate control considerations. Surveys of this literature include Bradley, Jarrell and Kim (1984), Harris and Raviv (1991), Masulis (1988) and Miller (1977).

Early empirical evidence on the trade-off theory [e.g., Bradley, Jarrell and Kim, (1984)] yield mixed results. However, recent studies examining capital structure response to change in corporate tax exposure. Mayer (1986) argues that the trade-off theory also fails to predict the wide degree of cross-sectional and time variation of observed debt ratios. Return on stock increases for any announcement of issue exchange offers. Overall, 55 percent of the variance in stock announcement period returns is explained (Masulis, 1998). Under some conditions capital structure does not affect the value of the firm. Splitting a fund into some mix of shares relating to debt, dividend and capital directly add value to the company (Gemmille, 2001). Uddin (1993) has drawn a conclusion in such a way that there is no relationship between capital structure and return on investment. Price-earnings ratio and earnings per share i.e., capital structure is independent of these issues. He, of course, mentioned that a 'real world' it is absolutely surprising.

Sina and Matubber (1998) observed the adverse position in the industry's managerial performance, profit earning capacity, liquidity etc that are the result of operational inefficiency, effective credit policy, improper planning and controlling of working capital, increased cost of raw materials, labour and overhead. Choudhury (1993) mentioned that the decreased use of debt tends to decrease profitability of a company. Because due to lack of adequate finances it has to give up some of the profitable opportunities and vice-versa. Banu (1990) stated that the capital structure of a firm has a direct impact on its profitability. She suggested that the concerned financial executives should put emphasis on various aspects of capital structure. Otherwise the capital structure of the enterprise will be unsound producing adverse impact on its profitability. Rahman (1995) identified the various aspects of problem of the sugar mills in Bangladesh and particularly of Kushtia Sugar Mills Ltd. Based on the above literature, we can say that several studies have been done on this area, but a comprehensive study has not yet been conducted, especially in manufacturing sector. Hence, this paper is an attempt to evaluate the capital structure and its impact on profitability of the listed manufacturing companies in Sri Lanka.

Conceptual Frame Work

After the careful study of literature review, the following conceptual model is formulated to illustrate the relationship between capital structure and profitability.

The conceptualization model from figure 1 shows the relationship between capital structure and profitability of listed manufacturing companies.

2. Objectives

The main objective of the study is to find out the capital structure and its impact on profitability in listed manufacturing companies in Sri Lanka and specific objectives are:

- To identify the profitability of Listed Manufacturing companies over the 05 years during 2003 to 2007.
- To find out the relationship between capital structure and profitability.

- To recognizes the capital structure.

Hypotheses

The following hypotheses are formulated for the study.

Capital structure and profitability is significantly correlated.

Capital structure has an impact on profitability.

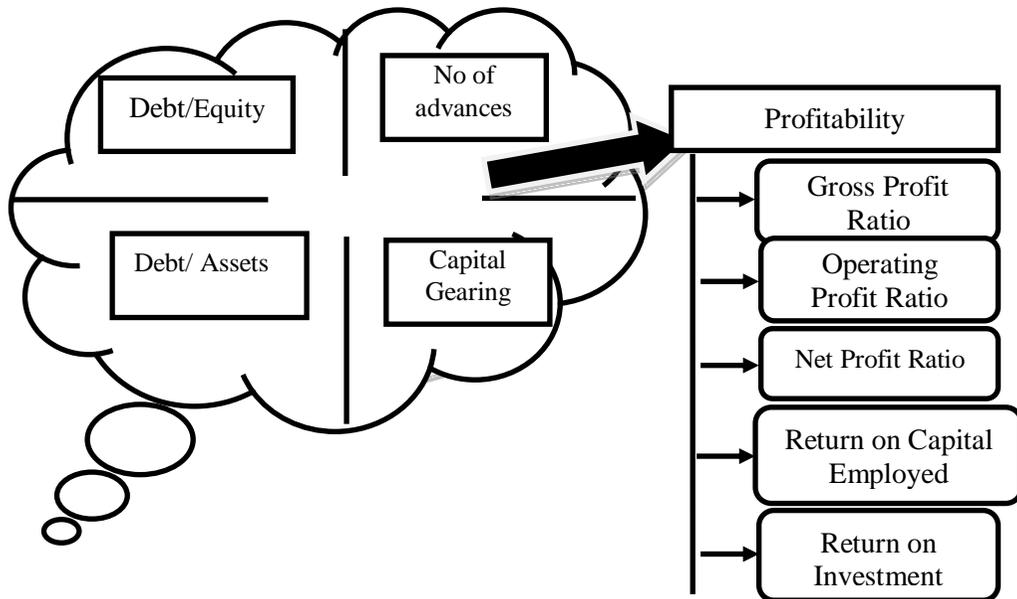


Figure no 1: Conceptual framework

3. Methodology

Scope

The scope of the study is listed manufacturing companies on Colombo Stock Exchange (CSE), Sri Lanka. Thirty one companies are listed under manufacturing sectors.¹ Hence, out of thirty one, only thirteen companies are selected for the study purpose as random. The companies include (1) Abans Electrical Ltd (ABANS); (2) Acl Cables Ltd (ACL); (3) Acme Printing and Packaging Ltd(ACME);(4) Central Industries Ltd (CIND); (5) Dipped Products Plc (DIPP); (6) Kelani Cables Ltd (KCAB); (7) Lanka Aluminium Industries Ltd (LALU); (8) Parquet (Ceylon) Ltd (PARQ); (9) Printcare PLC (CARE); (10) Pelwatte Sugar Industries Ltd (SUGA); (11) Royal ceramic lanka Ltd (RCL); (12) Samson International Ltd (SIL); (13) Tokyo Cement co (Lanka) Ltd (TKYO).

Data Sources

In order to meet the objectives of the study, data were collected from secondary sources mainly from financial report of the selected companies, which were published by Colombo Stock Exchange in Sri Lanka.

¹ Handbook of Listed Companies (2007). Colombo Stock Exchange, Colombo, Sri Lanka:,p.19.

Reliability and Validity

Reliability coefficients: α_1 = Capital structure; α_2 = Profitability

Capital structure

No. of Samples = 13

No. of Items = 04

$\alpha_1 = 0.560$

Profitability

No. of Samples = 10

No. of Items = 05

$\alpha_2 = 0.670$

The reliability value $\alpha_1 = 0.560$; and $\alpha_2 = 0.670$ were substantially higher than the prescribed acceptance value [Cronbach, (1951); Nunnally and Bernstein, (1994); Bagozzi and Yi, (1988)]. Secondary data for the study were drawn from audit accounts (i.e., income statement and balance sheet) of the concerned companies; therefore, these data may be considered reliable for the purpose of the study. Necessary checking and cross checking were done while scanning information and data from the secondary sources. All these efforts were made in order to generate validity data for the present study. Hence researcher satisfied content validity.

4. Analyses

The following capital structure and profitability ratios are taken into accounts which are given below.

Table no1: Calculations of Capital Structure and Profitability Ratios

Capital Structure Ratio	
Debt/ Equity Ratio	= Long term debts/ Shareholders' funds or net worth
Debt/ Assets Ratio	= Total debt/ Total assets
Capital Gearing Ratio	= Net worth or Equity Capital/ Fixed interest bearing securities
Interest Coverage Ratio	= Net profit before interest and taxes / Fixed interest charges
Profitability Ratio	
Gross Profit Ratio	= Gross Profit/ Net Sales X100
Net Profit Ratio	= Net Profit Before Tax/ Net Sales X100
Operating Profit Ratio	= Profit from Operating Activities / Net SalesX100
Return on Capital Employed	= Profit after Interest and Taxes/ Capital Employed X100
Return on Investment	= Profit after Interest and Tax / Total AssetsX100

Multiple regression analysis was performed to investigate the impact of capital structure on profitability which the model used for the study is given below.

Profitability = f (GPR; OPR; NPR; ROCE; and ROI)

It is important to note that the profitability depend upon debt/equity (D/E); debt/ assets (D/A); capital gearing (CG) and interest earned (IE). Since five profitability ratios gross profit ratio (GPR); operating profit ratio (OPR); net profit ratio (NPR); ROCE; ROI), the following six models are formulated to measure the impact of organizational growth on profitability.

GPR = $\beta_0 + \beta_1(D/E) + \beta_2 (D/A) + \beta_3 (CG) + \beta_4 (IC) + e$ (1)

OPR = $\beta_0 + \beta_1(D/E) + \beta_2 (D/A) + \beta_3 (CG) + \beta_4 (IC) + e$ (2)

NPR = $\beta_0 + \beta_1 (D/E) + \beta_2 (D/A) + \beta_3 (CG) + \beta_4 (IC) + e$ (3)

ROCE = $\beta_0 + \beta_1(D/E) + \beta_2 (D/A) + \beta_3 (CG) + \beta_4 (IC) + e$ (4)

ROI = $\beta_0 + \beta_1(D/E) + \beta_2 (D/A) + \beta_3 (CG) + \beta_4 (IC) + e$ (5)

Where: e - error term

Based on the above regression model GPR; OPR; NPR; ROCE and ROI are considered as the dependent variables where as D/E; D/A; CG and IC are the

independent variables. The detail analysis is carried out with the help of above indicators.

Results and Discussions

Banu (1990) stated that the capital structure of a firm has a direct impact on its profitability. She suggested that the concerned financial executives should put emphasis on various aspects of capital structure. Otherwise the capital structure of the enterprise will be unsound producing adverse impact on its profitability. Hence, capital structure indicators such as D/E; D/A; CG and IC should have a relationship with profitability indicators such as GPR; OPR; NPR; ROCE; ROE and ROI. The correlation analysis was carried out to test the relationship and the results are summarized in Table no 2.

Table no 2: Correlation matrix for Capital Structure and Profitability

Variables	D/E	D/A	CG	IC	GPR	OPR	NPR	ROCE	ROI
D/E	1								
D/A	0.978** (0.000)	1							
CG	0.984** (0.003)	0.198 (0.517)	1						
IC	0.907** (0.000)	0.862** (0.000)	0.006 (0.984)	1					
GPR	0.670** (0.004)	0.242 (0.426)	0.703** (0.007)	0.246 (0.418)	1				
OPR	0.915** (0.000)	0.617* (0.025)	0.395 (0.181)	0.259 (0.392)	0.039 (0.900)	1			
NPR	0.610** (0.007)	0.714* (0.006)	0.403* (0.012)	0.564* (0.045)	0.147 (0.632)	0.647* (0.017)	1		
ROCE	0.107 (0.727)	0.600* (0.030)	0.069 (0.822)	0.827** (0.000)	0.220 (0.471)	0.048 (0.877)	0.443 (0.129)	1	
ROI	0.194 (0.525)	0.064 (0.835)	0.161 (0.599)	0.052 (0.867)	0.473 (0.102)	0.086 (0.779)	0.102 (0.740)	0.060 (0.845)	1

*Correlation is significant at the 0.05 level (2-tailed)

** Correlation is significant at the 0.01 level (2-tailed)

From the table-2 we can observe that D/E ratio is positively and strongly associated to all profitability ratios (GPR; OPR; NPR) except ROCE and ROI. D/A Ratio is positively and strongly associated to OPR, NPR and ROCE. Similarly CG ratio is also positively correlated to GPR and NPR.

IC is significantly correlates to ROCE and NPR. As we mentioned in mode of analysis, five models were formulated and the results are summarized in Table no 3.

Table no 3: Predictor of Profitability – Model Summary

Details	GPR	OPR	NPR	ROCE	ROI
D/E	1.428 (0.191)	1.413 (0.195)	1.453 (0.184)	0.603 (0.563)	0.469 (0.651)
D/A	1.198 (0.265)	4.058 (0.004)	0.821 (0.436)	1.321 (0.223)	0.262 (0.800)
CG	4.637 (0.002)	0.931 (0.379)	0.821 (0.440)	0.092 (0.929)	0.327 (0.752)
IC	0.586 (0.574)	2.969 (0.018)	0.377 (0.716)	3.278 (0.011)	0.269 (0.795)

Details	GPR	OPR	NPR	ROCE	ROI
Constant	6.938 (t = 0.657; P = 0.530)	-145.773 (t = -3.134; P = 0.014)	46.779 (t = 0.665; P = 0.525)	62.262 (t=3.385;P=0.010)	21.956 (t=0.481;P=0.643)
R	0.864	0.864	0.818	0.863	0.235
R ²	0.747	0.747	0.669	0.745	0.055
Adjusted R ²	0.620	0.620	0.504	0.618	-0.417
Standard Error	1.67330	7.367	11.152	3.241	7.223
F Value	5.899 (0.016)	5.898(0.016)	4.045 (0.044)	0.523(0.668)	0.117 (0.973)

Note: Figure in the Parentheses indicate P- value

The specification of the four variables such as D/E; D/A; CG and IC in the above model revealed the ability to predict profitability ($R^2 = 0.747; 0.747; 0.669; 0.745$ and 0.055 respectively). In this model R^2 value of above five profitability ratios denote that 74.7%; 74.7%; 66.9%; 74.5% and 55.5% to the observed variability in profitability can be explained by the differences in four independent variability namely debt to equity ratio; debt to assets ratio, capital gearing ratio and interest coverage ratio. The remaining 25.3%; 25.3%; 33.1% and 44.5% are not explained, because the remaining part of the variance in profitability is related to other variables which are not depicted in the model.

An examination of the model summary in conjunction with ANOVA (F-value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variables. For model 1- F value is 5.899 and respective P value is 0.016 which is statistically significant at 5 percent levels. In this case it reveals that GPR has a significant impact on CG at 1 percent levels ($t = 4.637$). Again considering model 2- F value is 5.898 ($P=0.016$) which is statistically significant at 5 percent levels, it indicates that OPR has a significant impact on D/A ($t = 4.058$) and IC ($t = 2.969$) at 1 percent levels and 5 percent levels. On the other hand, model 3, F-value is 4.045 and respective P value is 0.044 which statistically significant at 10 percent levels. Model 4, we see that all of the corresponding F Value is insignificant in respect to their consequent P values. However, it should be noted here that there may be some other variables which can have an impact on financial performance, which need to be studied.

5. Conclusions

This paper examined capital structure and its impact on profitability: a study of listed manufacturing companies in Sri Lanka. The analysis of listed manufacturing companies shows that D/E ratio is positively and strongly associated to all profitability ratios (GPR; OPR; NPR) except ROCE and ROI. D/A Ratio is positively and strongly associated to OPR, NPR and ROCE. Similarly CG ratio is also positively correlated to GPR and NPR. Further, IC ratio is significantly correlates to ROCE and NPR. Further capital structure has a great impact on all profitability ratios.

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MUTATIONS IN THE INVESTMENTS' STRUCTURE OF THE BANK OF ROMANIA IN THE YEARS 2009-2010: NEW WAYS OF ACTION

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Abstract: The paper outlines the changes in the investments' structure of credit institutions in our country lately, as a consequence of the international financial crisis, and guidelines for investment in debt and equity capital for banking institutions. It found, however, aspects of the effects of bank involvement in securities activities, and potential conflicts of interest resulting from such activity.

JEL classification: G01, G11, G21;

Key words: commercial banks, investment banking, non-government credit, government credit, securities, financial instruments

Introduction

The main operations that commercial banks realize their most mobilized resources are represented by investment operations, resulting in lending and purchase transactions of securities. Analysis of the loans extended by commercial banks in Romania highlights the contribution of the banking system and real economy to cover the consumption needs of the population.

Credit market development is not a simple problem: it requires, above all, attracting the necessary resources, which in turn is conditioned by the growth of population and economic income, saving behavior and their fruition.

In structure, domestic credit to the two components, Non-government Credit (awarded to companies and households) and Government Credit (awarded to public administrations) recorded an increase from year to year in the period before the international financial crisis, due solely to non-government loans.

Uncertainties induced by the global crisis had occurred, mutations in Romanian credit institutions' balance sheet structure, from the last months of 2008, when the volume of credit to the private sector has substantially reduced the growth rate in favor of government securities.

Placement in securities plays an important role in the management of bank assets, using funds available and providing the necessary liquid assets the bank at a time, by conducting sale and purchase transactions in the market. Thus, investment in securities and bank portfolio diversification contributes to its protection against financial risk. At the same time, encouraging the sale and purchase of treasury bills by central bank through the discount offers made by the bank of the open market (open market), is one of the monetary and credit policies commonly used in current conditions.

The advantages of investment in securities are:

- they bear either as dividend income or as interest;
- provide a greater security and profitability;
- through them, the bank uses all funds raised;
- can be pledged to the bank at times difficult to obtain loans;
- provide the necessary liquidity through a bank to maturity securities perfect correlation with the bank's liquidity needs;
- government bonds issued by the Ministry of Finance and securities issued by institutions guaranteed by foreign governments that are devoid of risk;
- securities portfolio diversification reduces risk.

The evolution of investment banking in Romania during 2009-2010

To give a suggestive picture of the credit market in Romania, it seems useful to show the Total Domestic Loan growth, its components: Non-government Credit and Government Credit, and comparison between it and the Gross Domestic Product - both indicators are expressed in comparable prices, for the period 2008-June 2010, according to data provided by B.N.R. (Table no. 1)

Table no. 1. Domestic Credit in the period 2008 - 2010

- mil. lei -

Year	Total	Non-government Credit	Government Credit	Report Domestic Credit / GDP (%)
2008	2.276.892	2.138.710,4	138.181	22,13
2009	2.855.436	2.411.090	444.346	17,20
2010*	1.521.438	1.212.099,6	309.338	-

* until June

Source: NBR Monthly Bulletins processing in the period 2008 - July 2010

Datas presented in the table. 1. reveal that in our country, during the period 2008 - June 2010, Total Domestic Credit volume was an increasing trend from year to year, though from the last quarter of 2008 the international financial crisis became evident in the Romanian economy. The explanation is more pronounced increase in the volume of Government Credit in the year 2009 compared to the volume of non-government credit, as seen in the Figure no. 1. In the period under review, the accelerated growth of claims on government was presented to increased demand for loans of the central government (the volume of securities issued by the Ministry of Finance in 2009 was around 65 billions lei, and in the first half of 2010 approximately 21 billion, in addition, the Ministry of Public Finance attracting foreign resources with 3.88 billion on the domestic market).

During 2009, the National Bank of Romania's position creditor of the domestic banking system was strengthened gradually accommodating the increased demand for central bank reserves to banks through the active use of open market operations. Central Bank actions have resulted in improved banking system liquidity by increasing the stock of government securities held by banks. Also, the actual Government Credit growth is a counterpart of contraction in credit to the private sector. The preponderance of total investments at the Central Bank in interbank operations (91 percent at end of

March 2009) was maintained as a feature of recent years due, in particular, minimum reserves requirements.

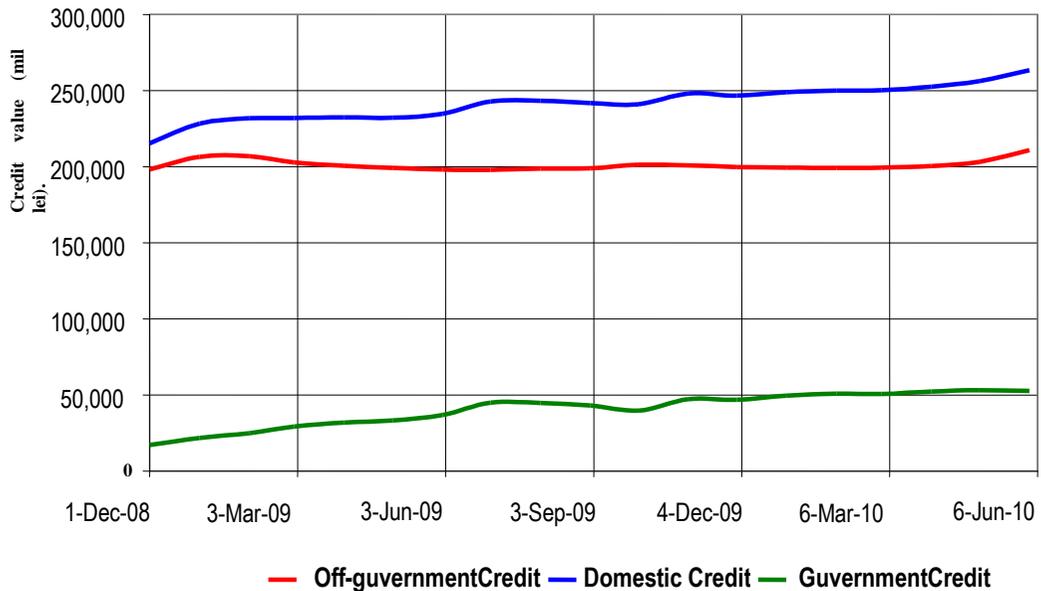


Figure no.1: Variation in Domestic Credit component (Non-government Credit and Governmental Credit) in the period December 2008-June 2010
Data processed from B.N.R Monthly Bulletins in the period 2008-2010

The fact that the domestic market continued to occupy the first position that investment of Romanian credit institutions, the decisive contribution claims was of the domestic bank sector, is revealed by the data in Table no. 2.

Table no. 2. Structure of assets of credit institutions operating in Romania

- percent in total assets -

	Dec 2008	Jun 2009	Dec 2009	Mars 2010	Jun 2010
Domestic assets, of which:	98,5	97,6	96,9	97,1	98,0
Claims on central bank and credit institutions, of which:	23,8	21,5	18,6	15,9	16,2
- Claims on central bank	21,8	19,8	15,7	12,9	13,8
Claims on domestic non-banking sector, of which:	63,4	66,0	67,5	70,4	71,1
- Claims on government sector	5,0	10,3	12,7	14,2	14,1
- Claims on corporations	29,2	27,7	27,3	28,5	28,8
- Claims on households	29,2	28,0	27,5	27,7	28,2
Other assets	11,3	10,1	10,8	10,8	10,7
Foreign assets	1,5	2,4	3,1	2,9	2,0

Source: NBR, cash balance in Financial Stability Report, 2010, page 26

A more detailed analysis based on data from the Central Bank's monthly bulletin, reveals that the annual growth rate of private sector credit in nominal terms,

fell from 34.1 percent in December 2008 to 1.4 percent in December 2009, ranking in January 2010 for the first time in the last ten years, landing on a negative (-3.5 percent in January), the evolution being positive but since April 2010 (0.5 percent April and 3.8 percent in June 2010).

The analysis of the real terms of the loan portfolio from the perspective of beneficiaries reveals contraction of loans to households (which correlated with a maximum decline rate of around 6 percent during February to April 2010, a phenomenon observed since April 2009). Loans to non-financial companies recorded a decrease of 4 percent over the same period, noted that the development incorporates the effects of outsourcing operations and subsequent recovery of loans sold. In June 2010, credit is a positive development in this segment.

In terms of size, the two components are substantially the same in total loan portfolio, but a slight advance has the loans portfolios held by individuals. These trends are revealed by chart no. 2.

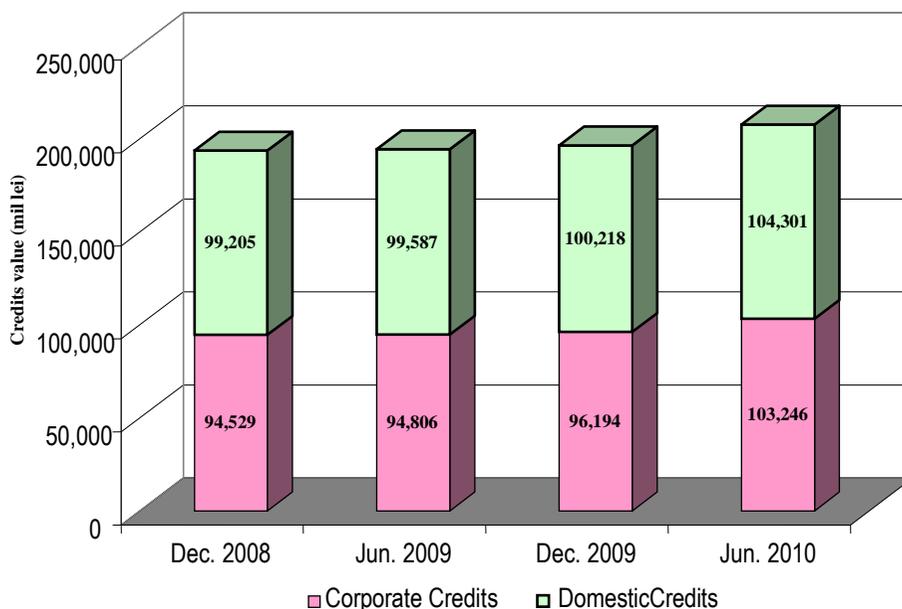


Figure no. 2. Evolution of non-government credit and its components

Data processed from B.N.R Monthly Bulletins in the period 2008-2010

Compression trend rate of growth of loans characterized both components of the private sector - lei and foreign currency, which at the end of March 2010 showed negative annual percentage changes for both components in domestic loans (-5.5 percent population and -4.4 percent for Companies) and foreign currency component of the population (-1.0 percent), a slight improvement in the corporate sector (+2.6 percent), issues highlighted in Figure no. 3.

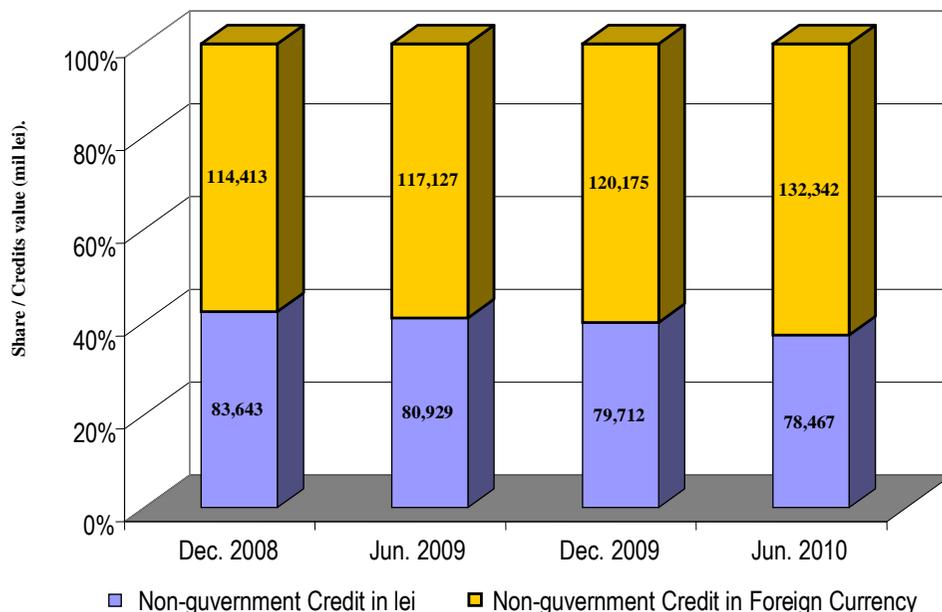


Figure no. 3. Non-government evolution in terms of currency denomination

In terms of maturity (Figure no. 4.), All credit types show negative annual growth rates at end-March 2010, more pronounced for short and medium term loans. In case of long-term credit contraction amplitude was lower.

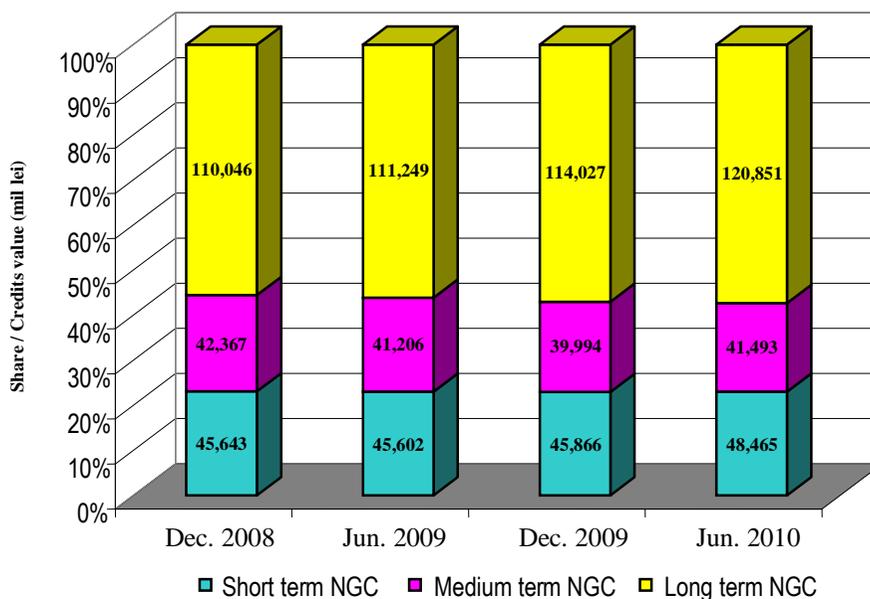


Figure no. 4. Evolution of the non-government maturity

NGC – Non-Governmental Credit

Data processed from B.N.R Monthly Bulletins in the period 2008-2010

In structure, long-term loans held 57.3 percent and short and medium term, 19.7 percent and 23.0 percent of total private sector credit at June 30, 2010. Evolution of long-term foreign currency credit was first supported by higher volume of new loans for real estate in euro (running the "first house" programme) by population and on the other hand, the operations refinance/rescheduling made to improve the ability of companies to meet debt service.

Issues of government bonds were mostly oriented to short-term maturities falling due to the liquidity of the interbank market, but also of high uncertainty on economic growth. Transactions in government securities at the Bucharest Stock Exchange has remained low, however, recorded a time of rising temporary and associated to investor risk aversion.

The deepening downturn in 2009 of economic activity, rising unemployment, tightening standards and credit terms in the context of rising volume of bad loans and the risk associated with guarantees are inhibitory factors that impact on supply and demand of private sector credit.

Interbank deposits, dominated for more than 80 percent of those of the central bank continued downward trend in reducing the level of fund reserve ratio.

Mutations in the dynamics and structure of credit institutions' investments in Romania, in 2009 and the first two quarters of 2010, can be summarized as follows:

- non-government loans tend to stagnate in 2009, despite the stimulating effect of measures taken by the Central Bank (lower minimum reserve requirement ratios applicable in domestic and foreign currency liabilities of domestic and foreign credit institutions, monetary policy interest rate decrease, amend certain provisions of prudential rules). Non-government credit contraction was produced by reducing both of supply and demand for loans. Regarding loan demand, the main factors that contributed to its restrictions were: adverse domestic macroeconomic developments, especially those related to Gross Domestic Product, unemployment and wages; pressures of currency depreciation in early 2009 and the increase in exchange rate volatility, the maintenance cost of borrowing at a high level; increasing population' savings trend.
- after a trend of contraction of credit to the Non-Government sector in most of the period under review, in June of 2010 has been registered a real increase it;
- ability to exercise an effective control over debtors and debt guarantees by centralizing of nonperforming loans;
- extremely low growth of bank assets, mainly due to the restriction of lending (5% in nominal terms in 2009, compared to 26% the previous year). Unlike before, when the increase in bank assets was based on Non-Government Credit growth, in 2009 it brought to the fore a significant increase for government sector exposures. This phenomenon characterize the banking market and is currently a serious challenge for both banks and authorities;
- accelerating the growth rate on government debt amid a sense of risk aversion of banks, but also increase the budget deficit. With sufficient liquidity, banks have preferred to buy government bonds with low risk to improve the quality of asset portfolio;
- the downward trend of banks' deposits at central bank caused by reducing of the reserve fund;
- lower quality loan portfolio, which proved to be more pronounced in 2009 and persists today, mainly due to economic recession. Although bad debts are at a manageable level, their growth is a concern for financial stability. Currently, banks

have sufficient own resources to cover any unexpected losses from credit risk; in addition lack the toxic assets of banks operating in Romania leads to avoid interventions funded with public money.

Based on the results of the analysis of Romanian credit institutions, we consider that the increasing involvement of banks in our country in transactions in securities, both money market and capital market, is not only necessary but also possible, creating synergy effects the following advantages:

✓ in terms of efficient allocation of resources, banks have the ability to lower intermediation costs and improve capital allocation. Previously, banks reduce information costs (since there are several debtors, the lower monitoring costs) and resolve the benefit of free information, because loans are not traded, so banks have an incentive to acquire information. Subsequently, direct monitor investments made. On the other hand, banks can use information not available to others in order to extract higher profits from companies;

✓ in terms of risk management, banks consider a linearized inter-temporal risk (because investment banks are active in lower risk, while markets investors adjust their portfolios to achieve the higher yields) and perform the management of liquidity risk². On the other hand, the orientation of banks to have projects less risky, makes that financing of innovative ideas (which are more risky) to have suffered³.

Also, involving of banks in transactions with securities should not be seen at small (only direct funding for the placement of shares and bonds), but large (extended), respectively for an efficient risk management, including as a source of increasing profits.

Thus, given the structural changes occurring in financial markets and different concepts about financial instruments, we believe that banking features (efficient allocation of financial resources in the economy, creating and offering the market for financial instruments for risk management, efficient mechanism payments, including the securities clearing and settlement) warrant inclusion in the scope of titles, alongside the classic among other things, like derivatives.

An argument in support of this idea is a financial innovation process (e.g. conversion of a group which is securitizing assets in illiquid financial instruments traded on the market and credit risk segmentation and transfer risk class), which allowed banks to allocate assets more efficiently structured assets according to risk categories to those who previously had no access to such a wide range of placement availability. Another argument in favor of extending the scope of titles is to consider the development of balance sheet and off-balance sheet of banks evolutions. Items in the second category know most consistent dynamic in the business and bring modern banking revenues increasingly significant.

Placing and bank financing through debt securities and equity securities

The structure of financial intermediation by banks has changed, the role of securities in the balance of these institutions is increasing. On the asset side, until

² Diamond, D., Dybvig, P. - "Bank Runs, Deposit Insurance, and Liquidity", Journal of Political Economy 91 (3), 1983, pag. 401-419

³ Weinstein, D., Yafeh, Y. - "On the Costs of a Bank-Centered Financial System: Evidence from the Changing Main Bank Relations in Japan", Journal of Financial Economics, 1998, pag. 532-635

recently, banks have channeled resources mainly to loans and deposits and cash holdings.

Today there is a tendency to modify the structure of bank liquidity, with earnings for the better. Thus, liquidity in the form of cash and deposits is offset by the increase of the share placement in securities or loans (which may be liquidized through the process of securitization). For example, in countries that have experienced the most dramatic reduction in the share holdings of cash and deposits (France and Britain), was identified also the largest increase in investment in debt securities (bonds), equities (shares) or loans.

The share of having cumulate securities (shares, bonds, the OPC) rose in all developed countries (in structure, debt securities are preferred instead of shares). This shows that banks have acquired quality of first players first in segment of claim titles (they are titles net buyers), the offer was less developed.

The increase in bank financing through money market securities or capital generates two challenges for bank management.

First, it can be an increase of interest rate and liquidity risks since: demand from investors for such securities is much more cyclical than for demand deposits; increased dependence on financing by interest rate developments. In the event that capital market yields are rising, the cost of bank resources by attracting increased more than deposits for financing. Similarly, low interest rates allow a reduction in deposits faster than pay for securities.

Second, financing through market instruments implies that the share of bank lenders with expertise in monitoring bank that funds be increased. As a consequence, in the event of problems with that bank, the negative reaction from these lenders will be much faster and broader than in the case of depositors. However, the cost of financing could increase especially for small banks and those with higher risk profile.

An analysis of the reality of the plan's holdings of securities by banks reveals the following aspects:

- involvement in possession of evidence is the prerogative of large banks in particular;
- for large banks has been some uniformity in the distribution of investment in securities;
- there are large banks that placed nearly 65% of the total debt balance sheet asset (the maximum level has been rising in recent years, until international financial crisis, which meant that there were large banks believe it is more efficient to increase exposure in this direction);
- volatility in the securities placement has come to be superior for large banks, which could reflect the fact that large banks are not only the most important players on the securities market, but also the most dynamic and flexible portfolio restructuring;
- large banks, in particular, invest in the securities trading book (i.e. short term), while medium and small banks are using their resources for the purchase of securities issued by central and local authorities.

The most spectacular developments on bank investment securities are recorded on the off-balance-sheet, namely the derivative section. Banks' holdings of such securities have been in seven years (2000-2006) more dynamic than the aggregate banking assets in the last 35 years.

For the case of euro area, banks are active in the area of protection buyers, while regional banks are acting to protect sellers. Many of these banks have been

especially motivated more attractive yield credit derivatives and portfolio diversification opportunities offered.

Specifically, the credit derivatives market has an important and increasing role that allows banks to be exposed to large and very large companies; otherwise that exposure would not have done it, either because of difficulties meeting the additional requirements capital, either because of limitations in the existing prudential banking regulations relating to a single debtor.

It becomes increasingly obvious that the analysis of use bank holdings of securities and therefore of management must focus more also to off-balance sheet side. Unlike the balance sheet features of securities, the main purposes for which banks have used derivatives is hedging and less satisfying liquidity requirements.

Also, by offering customers the instruments for hedging risk, banks can get a double benefit, as follows: market value of those companies will increase, and the probability of default is reduced, with positive effects on bank capital requirements and the quality of its portfolio customers; the bank will receive income in return for offering such products. These incomes (excluding interest) are particularly important because they are less correlated with the evolution of interest rate volatility and with favorable effects on profitability and revenue stability.

Effects of bank involvement in securities activities

Bank involvement in securities operations changes:

- risk profile of financial institutions and the way in which management must be done;
- relationships with customers;
- balance sheet and off-balance sheet structure;
- income structure.

These changes determine positive effects, but also possible conflicts of interest and challenges that banks must pass. We believe that in terms of a quality management, bank involvement in securities activity leads to positive effects outweigh the costs and risks. The main identified positive effects on bank involvement in securities activities are:

- development of enduring and long-term relationships with business. A universal bank can be seen as a horizontal merger between a commercial bank and investment bank. In this situation, the cost of a company that supports it to change the bank will increase⁴.

- possibility of diversifying risk. A universal bank effecting transactions in securities and may be more stable than a specialized bank, due to the effect of income diversification;

- obtaining a synergistic effect with conventional banking activities through the following channels⁵:

- ✓ use existing distribution network to offer securities operations for clients;

⁴ Rajan, R., „The Entry of Commercial Banks into the Securities Business: A Selective Survey of Theories and Evidence”, Conference on Universal Banking, February 1995, pag. 91

⁵ Santos, J., „Commercial Banks in the Securities Business: A Review”, Bank for International Settlements Working Paper No. 56, 1998

- ✓ changes in demand for our products is more manageable because the banks may respond by shifting resources available;
 - ✓ You can use already gained a reputation for traditional banking transactions, for transferring to securities transactions;
 - ✓ consumers may be more willing to purchase a product package from a single vendor than separate products from different banks that can reduce the costs of search and monitoring of the most attractive offer.
 - □ by extending the scope of services, the bank has many instruments available to meet the funding act, while exerting a stronger monitoring of the management company debt;
 - deleveraging process will affect more than one bank is involved in securities operations;
 - innovative activity is stimulated. This tendency is very strong, but the risk is that the best innovations are immediately copied by the market. However, banks still have an incentive to offer new products that innovators do not win by charging higher prices than those of the imitators of services and products, but by holding a higher market share allows the development of a turnover higher.
- On the other hand, bank involvement in securities activities may generate conflicts of interest for several reasons. The bank may:
- promote its titles to customers who subscribed to them for resale, although the market can offer better options;
 - includes in its portfolio securities funds which it manages, but failed to sell;
 - to pressure customers to acquire services on which the bank provides securities;
 - to pressure a customer, in a delicate financial situation of the bank, to issue securities to subscribe to and resell them to the public. In this way, the company obtain the funds necessary to pay obligations to the bank;
 - use confidential information it acquires in the process of underwriting securities companies.

Conclusions

Bank involvement in securities operations, in my view, produces a number of challenges, among which the most important are the following:

- increase in debt placement determines an increase of the elements that are valued at market, in most cases even daily. The effect is increased volatility in asset values and asset off-balance-sheet items considered equivalent, with immediate implications on the volatility of capital. They can gain a stronger pro-cyclical (and this is one of the factors that have boosted the international financial crisis of 2007-2008) because the value of securities in most cases even anticipated economic and financial developments. Under these conditions, monitoring developments in the market prices or values derived from models will increase in importance because the capital will change much broader and often. It may be necessary also a greater safety net of capital to do not fall below the threshold is covered. However, increased funding through securities induces a higher risk of liquidity and interest rate, a more aggressive negative reaction if the bank is in trouble and a higher cost of funding for certain banks;
- identification as a fair value of securities or a service cost of this class will prove an increasingly difficult task due to the increasing complexity of transactions and instruments. Internal models used both for risk management based on current

transactions in securities and capital adequacy could not get validation of supervisory authority, or, at worst, of the market. Furthermore, after a certain threshold of complexity, it is likely that bank's management or specialized departments would no longer understand to use, monitor and evaluate them in an appropriate manner (as has happened in the years leading international financial crisis August 2007);

- the risk profile of banks changes in transactions involving securities. Specifically, credit risk, market risk, systemic risk and the risk of revenue volatility increases (otherwise, the current international financial crisis has demonstrated once again that fact). The risk of contagion no longer be limited especially in the interbank market, but extends to the capital. In this sense, the risk of capital flight and sharp fall in quotes prices is material that should be monitored more widely in the management of modern banking..

In our opinion, these changes in structure of risks need to adapt proper banking management and it's very important to avoid crises like the one that currently exist, so that history does not repeat itself.

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DEFINING ELEMENTS IN SETTING THE OBJECTIVES FOR THE STATUTORY AUDIT MISSION

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Abstract: The material focuses on setting the objectives for a statutory audit mission, presenting us with three major directions that are centered on managerial assertions for the financial statements. In this context, we take into consideration the aspects related to interpreting the applicable international referential, ways of segmenting the mission, as well as the optimum correlation of the general objectives of the mission with the managerial assertions.

JEL classification: M4, M42

Key words: general objectives, specific objectives, management assertions, audit segmentation

1. Introduction

The detailed setting of the objectives for each financial audit is performed by starting off from the general purpose or objective of this mission, which according to the national auditing standards, is that of allowing the auditor to express an opinion about the company's accounting records and books, based on all significant aspects, as per a general identifiable financial reporting framework."

In order to fulfill this intent, the auditor starts from the managerial assertions, setting the objectives of the mission by constant reference to these ones, one aspect that enables the reference framework to collect the evidential elements necessary to issue the audit opinion.

We consider the presence of the managerial assertions reasonable in such conditions because of the current outlook on the accounting regulations about the tallying of the financial statements for the assets, the capital and the liabilities, as well as the income and the expenditure.

Setting the objectives involves, among others, the unprejudiced division of the workload between the members of the auditing team, one aspect that facilitates the efficient management of the mission. The practical approach of this initiative can be implemented by identifying the segments and the components that are to be audited separately, keeping an eye on the general overview so that there is possible to issue an audit opinion for the whole of the financial statements of the entity.

On the other hand, the auditors must also take into consideration the connection between the general objectives of the operations and the analyzed balances and the managerial assertions because there cannot be a perfect correlation of these ones.

2. Objectives

This material focuses on the following aspects.

1. Analyzing the managerial assertions of the annual financial statements in the context of the applicable accounting regulations.
2. The segmentation possibilities of the auditing process, as a means of its efficient managing and of providing the auditor with the necessary information to issue the opinion.
3. The need to strike the right balance between the general objectives of the mission and the managerial assertions.

3. Methodology

The conducted research consists in the analysis of the information presented in papers specialized in auditing as well as the international standards, which are adopted by national authorities as well. Those have been subject to the processing and interpretation by authors, one aspect that is supported by the opinions that are expressed in this material.

4. Analyses

Thus, the managerial assertions represent essentially the implicit or explicit statements of the management about the categories of operations that are performed by the entity and the accounts in which these ones are reflected. They are focused on more aspects that fall into the following categories according to the literature:

- the existence, that involves the fact that the assets and the liabilities of the company have existed starting from the date of the financial statements;
- the rights and the obligations, that is the fact that the assets belong to the entity in a certain moment;
- the issues, the production of the transactions and the events in the interval when the reporting is performed as well as the connection with the respective entity;
- the exhaustivity that is recording all the assets, liabilities, transactions or events that require the adding to the financial statements;
- the assessment that is recording the assets and the liabilities at an adequate accounting value;
- the measurement, which is recording a corresponding value of the transactions and the events, as well as the allotment of all income and expenditure of the corresponding interval;
- editing and presenting the information that is the presentation, the classification and the description of each element included in the financial statements that respect the specific general reporting frame.

Given the Romanian context, we consider that applying the current accounting regulations can raise a series of problems to the management because of the relatively new character represented by the modern conceptual approach for the acceptance of the financial statement of the assets, the capital, the liabilities as well as the expenses and the income, which emphasizes the fact that the simple defining and typifying the components of the financial statements is no longer enough to compose and present the balance sheet and profit and loss account. We need increased strictness on the part of the ones that draw up financial statements, so that for each relevant operation or event the criteria are respected.

Because of that, in our opinion, there are more elements that can influence the correctness with which the management presents its assertions in the edited financial statements that the auditor should take into account when setting the objectives, elements whose presentation is as follows.

- Calculating the assets based on two fundamental criteria, that is: the probability to realize a future economic benefit and to determine the value/ cost of this one credibly, which involves giving up adopting this issue due to the asset ownership. Thus the assets represent future profitable economic benefits, held and controlled by the entity as a result of some operations or events from the past. In the same time we can notice the principle of the influence of the economic championing over the legal (controlled resource that does not involve ownership) and the principle of the continuity of the activity (future probable economic benefits).

- Presenting the liabilities according to the cumulative fulfillment of two criteria: the probability of an economic benefit carrying resource turnoff and a credible evaluation.

According to the applicable accounting regulations the liabilities are current obligations of the company because of past events and by whose deduction might trigger a resource turnoff that will incorporate economic benefits. Moreover, it is mentioned that there are considered to be liabilities only those current liabilities that have been triggered by past operations or events.

As far as the assets and liabilities are concerned, there can be performed a clear long term/current delineation that can enable the classification of the assets as current assets and fixed assets, respectively, of the liabilities in current liabilities and long-term liabilities.

- The concept of preserving the capital represents another aspect that requires special attention on the auditors' part, because of the implications that it has on the assets and the liabilities (in a higher degree), as well as on the income and expense (in a lesser degree), as well as because of the fact that it determines the accounting model used to edit financial statements. Preserving the capital involves adopting two approaches by the management, according to what they think strikes a better balance between relevance and credibility in presenting the information in financial statements, that is:

- Preserving financial capital, a concept according to which profit can be made only if the financial (monetary) value of the net assets at the end of the interval is higher than the value of the same elements at the beginning of the interval, after the exclusion after the exclusion of the distributions and the contributions by the owners in the analyzed interval.
- Preserving the physical asset that states that the profit is made only when the physical productive capacity of the organization at the end of the analyzed interval is superior to that from the beginning of the interval.

As regards using the concept of preserving in the editing of the financial statements we agree with those opinions that claim it is the financial concept of capital which is more appropriate, because it fits better the information needs of the users.

As regards the capital of the entity, one significant aspect from the perspective of the auditors is the regulatory risk to which the capital is exposed, as the issue of fiscal law legislation changes can determine getting an insignificant benefit or a decrease

in its value.⁶

- There is a close connection between the concept of preserving the capital and calculating and setting the income and the expenses.

The income is calculated in the profit-and-loss statement if the circumstances for a benefic future economic growth are achieved cumulatively, because of increases in assets or decreases in liabilities, as well as a credible evaluation of such an increase. They represent increases in economic benefits recorded during an accounting exercise as turnover or increase of the assets or decrease of the liabilities that trigger off increases in capital besides the ones that have been caused by the shareholders' contributions.

In turn, the expenses have to respect the credible evaluation criterion as well as the one related to the future economic benefit decrease by asset decrease or increase in liabilities. They represent decreases in the economic benefit recorded during the accounting exercise in the form of turnoffs or decreases of the asset value or decreases of the liabilities that result in reductions of the capital, besides the ones resulted from the sending to the shareholders.

Besides calculating the structure of the financial statements another aspect that can influence the managerial assertions is that of evaluating the structures that are concerned since it is common knowledge that there can be more evaluation bases. The international accounting referential mentions the ones regarding the historic cost, current cost, realizable value (settlement) and the present value.

The evaluation option that is most frequently used in practice is the historic cost that is the assets are included in the financial statements and the value settled in cash (or its equivalent) or the right value set when they were bought, and the liabilities are set for the value of the equivalent sold in exchange or, as is the case in some situations, in the case of income tax, for the value that is expected to be paid in cash (or its equivalent) to settle them.

The presented elements impose strictness not only on the part of the management but also on the part of the auditors, who during the process operate frequently the concepts, principles, methods and definitions regarding the assets, liabilities, income and expenses.

On the other hand, we should take into consideration that the objectives for an audit are not set on the whole, it is necessary to have a division of these ones based on components of smaller sizes, so as to equally distribute the workload to the members of the team and implicitly an effective management of the whole process. This operation, known as audit segmentation, does not involve completing the task completely independently based on the segments defined at the beginning; on the contrary, it involves a close analysis of the connection between these ones, followed by issuing a conclusion regarding the financial statements on the whole.

There are some models to segment the auditing process. We would like to mention the ones drawn by Arens and Loebbecke⁷, while writing one important paper on the topic:

- The option of approaching each account balance as a distinct segment. This option has a major disadvantage because it is likely to have a separate audit of some tightly connected accounts

⁶ Mihai M., Mehedințu Fl., The accounting information and the company's capital management, Publishing House Universitaria Craiova., 2008, pag.31.

⁷ A. Arens, K. Loebbecke, Audit: An integrated approach, Arc Publishing House, 2003., pag 179.

by the members of the team which leads to an increase in the duration of the audit, thus impacting the costs;

- The option of segmenting the audit by categories of operations and account balances tightly connected. It is known as the cycle method and it removes the disadvantage previously mentioned, while enabling a better understanding of the financial statements, one aspect that facilitates drawing a conclusion in that case of complex audit.

In this context, the American specialists consider the following operations relevant to the auditing process: Sales-collections; Purchases- payments; Salaries- personnel; Capital attraction – reimbursement.

Consequently, the auditor has to define the objectives for each category mentioned above to collect evidential elements, called operation- related auditing objectives.

It is imperative the general objectives focused on the main operations are closely connected to the managerial assertions for the financial statements.

However, one should draw a line between the general operation- related objectives and setting specific objectives for each category that should help provide more detailed information. Considering this connection, we think the auditor's take is more simple when it come to general objectives and more difficult when there are operation-related specific objectives, since that required detailed knowledge of the organization.

In a similar way, while setting the operation-related the auditor acts as in the case of accounts balance, by trying to get audit evidence to justify the amounts that are put down in the accounts, which means that there is no actual check of the accounts.

As regards the connection between the managerial assertions and the general objectives regarding the operations and the accounts balance, it is also mentioned that the ones that are operation related are fewer than managerial assertions, while the operation- related objectives are more. This is justifiable, firstly because the managerial assertions for the rights and obligations as well as the presentation of the information cannot be associated with the organizational operations and, secondly, because of the need of strictness on the part of the auditors to get more detailed elements to take a decision for the audit evidence.

Since the setting of objectives for the audit is a framework to achieve its goal, to express the opinion about the financial statements, on the whole, in connection with all the significant aspects, according to the identifiable financial reporting framework, we consider that the analyzed issue is cannot be separated from the objective of the company's financial statements.

It is know that the latter are design as to enable o clear image of the financial position, financial performance and other information about the activity.⁸

In these conditions, the auditor should take into account the fact that the balance sheet reflects the situation of the entity at the end, the profit and loss statement and the cash flow balance are relevant for the whole audited interval and the capital change statement connects the balance sheet to the profit and loss statement, reflecting

⁸ C. Staicu și colectiv, Financial accounting – International and european approach, vol. I, II, Publishing House Universitaria Craiova, 2010, pag. 8.

the change in capital ownership and implicitly, the performance over a certain interval.⁹

Only by considering the above mentioned connection will we be able to accomplish the general objective.

In this general context the auditor will add to the objectives related to the above mentioned aspects, determining and calculating the financial indicator of the entity as basic to audit the financial position. In this regard we will extend the analysis based on the analytic model, because only in this way one can get evidential elements for the purpose.

Also, in order to collect audit evidence relevant to the financial performance of the entity, the auditor will set more general objectives so as to have the possibility to calculate and examine the conformity of the profit and loss statement with the international referential.

As regard the analyzed issue, the literature expresses opinions according to which the editor needs to focus on, prevailingly, the balance sheets and to take into account only the ones issues in certain situations, one aspect that is justified by the supporters by the tight connection between the two accounts.

In our opinion, the auditor should set deadlines for both the balance sheet and the result statement. In this regard we share the opinion of the Alexandru Rusovici, specialist, which recommends the close examination of some significant elements for the financial performances of the entity, that is:¹⁰

- the correct tallying of the income and the effective cost cover;
- the correct calculation of the income and the costs of the interval according to the set accounting principles;
- the correct association of the amount in the income and expenses statement with the ones in the asset and liability accounts and the correct record of the operations;
- the uniformity of the accounting principles that are applicable in both the current and the previous situation;

As regards the cash flow of the entity it is imperative to examine more aspects, which, altogether, can be considered audit objectives among which we mention the ones related to:

- checking the existence of cash resources;
- the correct evaluation of the elements expressed in currency;
- the method that should be applied;
- the correct presentation of the financial statements of the used elements to determine the cash flow.

In turn, the capital change statement needs, besides the careful examination of the previously exposed capital, further setting of more audit objectives, among which we mention:

- the correct setting of the balance sheet elements that are relevant for the social capital, reserves, profit and loss of the current exercise;
- examination of the respective accounting treatments;
- respecting all the legal, accounting and fiscal regulations;
- the analysis of the changes in the volume and structure of the capital, and so on.

⁹ A. Rusovici, F. Cojoc, Gh. Rusu *The financial audit of companies*, R.A. The Oficial Monitor, București, 2003, pag. 250.

¹⁰ A. Rusovici, F. Cojoc, Gh. Rusu *The financial audit of companies*, R.A. The Oficial Monitor, București, 2003, pag. 275.

5. Conclusions

The rigorous assessment of the objectives of the statutory audit mission is a complex process that involves professional strictness on the part of the auditors. So among other elements that have to be taken into account, it is necessary that the objectives of the mission are configured in such a way to enable the optimum correlation with the managerial assertions and, at the same time, with the segments that have been drawn for the components of the yearly financial statements. Such an approach can contribute to improving the quality of the entire audit process by having beneficial effects on the solid argumentation of the audit opinion expressed at the end of the mission.

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CURRENT VIEWS AND DIRECTIONS REGARDING THE AUDIT OF CONSOLIDATED ACCOUNTS

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Abstract: Financial audit consists of collecting and evaluating some tests regarding information in order to determine and return the accordance degree of that information with a series of preestablished criteria, performed by a competent and independent person. Doing this activity at the level of consolidated accounts implies the existence of a verifiable informational basis and of accounting and audit norms that guide the auditor in the process of information evaluation.

JEL classification: M41, F23.

Key words: critical; financial audit; information evaluation; consolidated accounts, group structure, particular risks.

1. Introduction

Finalizing the analysis regarding the making and features of consolidated accounts requires, among other things, emphasizing the aspects concerning the accounting audit of these references, seen as specific activity of insuring the reality and the accuracy of the information given by the financial situations drawn up and presented according to the accounting frame accepted by each specific country.

The insurance services are performed by independent professionals and allow improving the quality of the information provided to the external users (primarily) as well as to the internal users, especially to the entity's management. They are mainly done by the financial auditors authorized by CAFR.

In the category of insurance services we can also register the certification activity which is materialized through written insurance conclusions formulated by authorized persons and addressed towards the entity's management.

Through these written conclusions opinions are provided concerning the accordance of consolidated financial situations, the significant aspects, coinciding with the generally accepted accounting principles.

In the category of certification services of the financial situations we register the following types of activities: the audit of financial situations, revision of financial situations and other certification services. In this last category we usually find details of some activities from the area of accounting audit, analysis of internal control efficiency, drawing up provisional financial situations and others.

Financial audit consists of collecting and evaluating some tests regarding

information in order to determine and return the accordance degree of that information with a series of preestablished criteria, performed by a competent and independent person.

Doing this activity implies the existence of a verifiable informational basis and of accounting and audit norms that guide the auditor in the process of information evaluation.

We feel that, although the information evaluation is done according to the generally accepted accounting principles which must have an objective character, in his activity the auditor also uses information with subjective character, for example, financial information provided by the informational systems that the entity is using, therefore we state for implementing a statutory system that would be able to insure a significant reduction of this degree of unpredictability, in essence of partiality.

This information, studied and verified by the auditor, is useful for him collecting the audit tests on which he will reason his opinion in the audit report. The tests represent any information used by the auditor to determine if the audited information is presented according to the preestablished criteria. The tests present themselves under various forms, like the confirmations from third parties or the auditor's observations and their quality and quantity affect the audit's purpose.

2. Methodology

The notion of financial audit is very wide and comprises all the informational currents that pass through the entity's activity, but the most important area of financial audit is the accounting range, out of which this activity gets most of its necessary information, because in a correctly performed accountantship any event and internal or external transaction is emphasized in that accountantship.

If we consider that the accountantship's role is that of reflecting all the operations regarding the entry, classification and summarization of economical events and transactions in order to provide financial information for the decision process, then we can look differently at the audit process, in which the accounting data are verified under the aspect of their correct entry and them really reflecting the events and transactions that were made during the financial exercise.

We support the specialist's opinion¹¹ who notices the fact that the general inspection of financial situations has as main objectives checking if the balance, the profit-and-loss account, the situation of treasury flows and the notes:

- ✚ are coherent, respecting the general knowing of the entity, the area of activity and the social and economical environment;
- ✚ if the accounting principles and regulations in force have been followed and correctly applied;
- ✚ the events after the balance's closing date have been correctly evaluated.

Thus, from the activity's point of view, financial audit, which has compulsory nature for the consolidated financial situations, comprises in its range of action also other economical, banking, public, insurance and reinsurance entities and so on.

The audition activity of consolidated accounts comprises three phases: the preliminary phase, the final phase and the drawing up the report phase, schematically represented in illustration no. 1.

¹¹ Stoian A, Țurlea E., Accounting audit, Economical Publishing House, Bucharest, 2001.

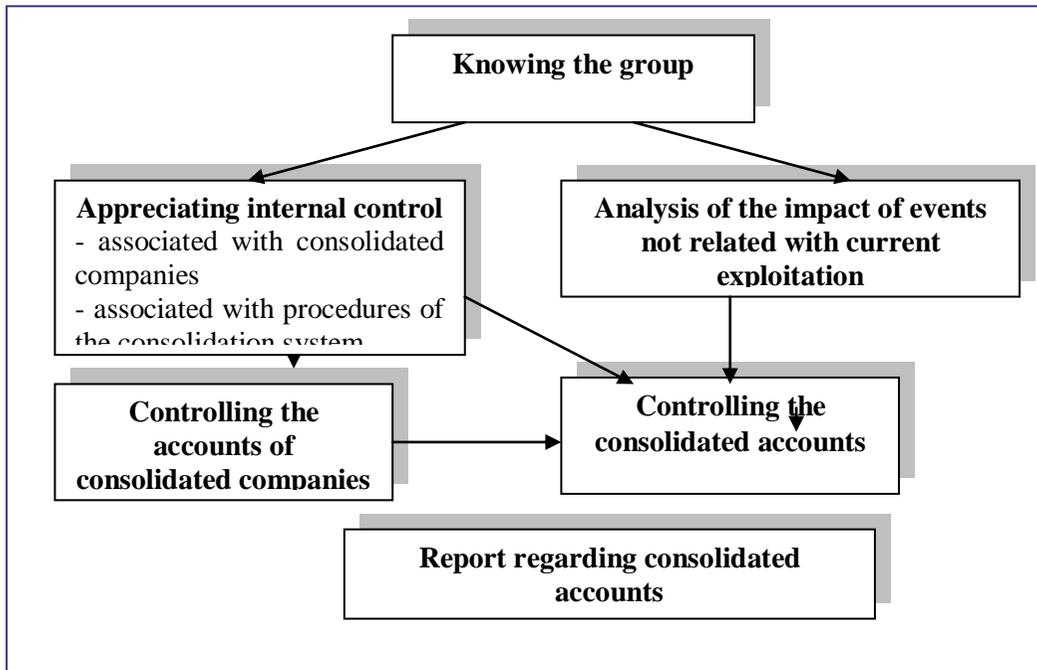


Figure no.1 The phases of audition activity of consolidated accounts

1. Preparing and planning the mission of financial audit comprises three important activities: generally knowing the group, analyzing the risks and defining the significance steps, materially organizing the work. Among other things, in the case of consolidated accounts the relationships with the auditors in the branches are primary.

a. generally knowing the group consists of, in a first stage, the auditor gathering the significant information necessary for him to achieve his mission, among which we mention:

- + **legal context and existing regulations** allow to determine the company's obligations in the way of financial report (nature, periodicity, terms), of presenting accounts (commercial company, credit financial company, insurance company);

- + **group structure, group organizational chart and consolidation area**, weight of the different consolidated companies, different areas of activity, geographical sectors in which the consolidated entities are placed, nature and importance of internal transactions inside the group, exceptional elements capable of intervening (reorganization, activities' transfers);

- + **consolidation general organization**, the procedure, usually informational, of consolidation, involving consequences at the level of control organization;

- + **group general context** concerns information that allows the auditor a better comprehension of the group's evolution. The main sources for this sort of information are: talks with different managers, the report issued by past internal or external auditors, consolidated accounts of previous exercises. The group's inventory report and generally any information regarding the group's „internal life”, financial and economical press, information published by groups with similar activities.

b. Analyzing the risks and defining the significance steps. After obtaining a general image of the group, the auditor identifies the particular elements he will be

considering in organizing his activity and the risk factors, like:

✚ **inevitable risks regarding the group's structure and its activity:** complex or partially modified through cession of the organizational chart, acquisitions, self-control, multiple transactions inside the group, the existence of companies under exclusive control in countries with strong inflation, difficulties in obtaining information from companies inside the group, multiple and important mixing and consolidation re-treatments for example, re-treatments for the historic cost of immobilizations of companies placed abroad);

✚ **risks regarding the system's internal control** and the consolidation procedures concern the consolidation organization as well as the team that will working in consolidation (competence, training, number);

✚ **particular risks, like some financial or organizational difficulties of a company,** important reorganization operations, unusual variances concerning the rate of exchange. Based on the risk evaluation and conserving the values specific for consolidated accounts (own capitals, result, turnover), the auditor can define the significance steps, namely to establish the maximum value of tolerated errors.

c. Materially organizing the work comprises a control program, a calendar, forming the team, organizing the files.

❖ **The control program** defines the nature and contents of the works that will be performed regarding:

- ✓ the examination of the companies' accounts, considering their importance, the auditor must define the contents of audit works;
- ✓ the study of the auditors' files;
- ✓ the examination of internal control, mentioning the procedures that must be analyzed and evaluated;
- ✓ the control of the consolidation operations (accumulation, eliminations, re-treatments):

❖ **The calendar** specifies the data of development of the different control phases, particularly: examining the consolidation area, the consolidation principles and methods, control of mutual operations, direct interventions in companies based on the programs' instructions, control of accounts' cumulation, control of re-treatment and elimination operations, final examination of accounts, intervention and recombination synthesis report with the group's financial management.

❖ **Forming the team** is done based on the group's activities, the consolidation technical difficulties and on calendar.

❖ **Organizing the files, the permanent file,** with the chapters: general information regarding the group, general organization, methods, accounting principles and procedures, consolidation files that comprise information about each entity in consolidation and the **annual file** comprising: consolidated financial situations, reports of certification and communication towards administrators, synthesis, administration of the mission, legal control, fiscal file regarding consolidation, control modules.

The estimation of internal control is done by the auditor referring to the main principles. Within the certification, the auditor must follow aspects regarding: the existence of a strict organization of the internal control, the existence of a qualified personnel, the existence of a system of respective documents, the existence of a verification system of operations and their correct book-keeping.

The control of consolidated accounts deals with three aspects: the consolidation principles and methods, the accounts of companies comprised in

consolidation, consolidated operations and accounts.

a. The control of consolidation principles and methods consists of the auditor appreciates the registered principles and methods. This appreciation is done in relation to the norms the dominant company chose to refer to, considering the legal obligations. The appreciation is done about the following objectives:

- **the registered consolidation area.** The area changes and the set of waivers are being studied in order to see if they are justified;
- **the registered consolidation methods** (global integration, equivalence, proportional integration). There is being examined the way of choosing the method, adjusting the registered method with the nature of each company (control percentage, area of activity), changes of method from one exercise to the other, correctness in applying the methods;
- **the adopted accounting principles and the consolidation principles,** verifying if the registered principles are correct and according to the reference norms, if there weren't modifications as opposed to the previous exercise or if there were, if they had been justified in the enclosure. The auditor can use as working instrument a control questionnaire.

b. The accounts' control of companies going in consolidated accounts verifies if there was regularity and honesty in the accounts of consolidated entities and taking note of discrepancies regarding the presentation and evaluation rules in relation to the norms registered by the group.

c. The control of consolidated operations and accounts comprises:

- **preliminary control,** that, just as in the case of annual accounts' control, consists of executing two analyses, which, correlated with the general knowledge about the group, complete or modify the initial analysis of risk, which consists in the following type of analysis:

- ✓ preliminary, whose aim is to emphasize the significant information that might affect accounts and/or control programs of consolidated accounts;

- ✓ of evolution of financial information, whose aim is to reflect the significant data variations that might affect accounts and/or control programs of consolidated accounts. The auditor certifies and verifies all the important differences in percentage or absolute amounts. This analysis comprises at least the following elements: variation of the consolidated balance and analysis of significant movements according to the group's activity, the variation of results account, the contribution of each sector for the consolidated result, the contribution of each company inside the group for the consolidated result.

- **the control of performed re-treatments** concerns verifying the correct application of principles and methods, especially answering three questions regarding re-treatments: their wholeness in relation with the group's norms, their correct performance, their continuity from one exercise to another. These questions must concern all re-treatments regarding form, like jobs reclassifications, exceptional elements comprised in the current result or ground re-treatments, like redeeming, regulated provisional.

Wholeness is also a problem of internal control, the company must insure by herself this wholeness. The auditor performs based on the company's importance and the executed re-treatments, tests that will allow obtaining a certainty in this matter. On the other hand, based on the filled questionnaires the companies' auditors are being ensured by the wholeness of re-treatments.

d. The control of consolidation entries comprises the elimination of mutual operations, of mutual accounts, of internal results stock sales and active transfers and elimination entries of the participation and partition titles of own capitals.

For verifying the elimination of mutual accounts and operations, starting with a summary of accounts inside the group, there is the control to see if the values registered in the accounts inside the companies have been correctly eliminated, for emphasizing the possible differences and their way of treatment.

In relation to the elimination of internal results regarding stock there is the control to see the application of principles registered by the group starting from a scenery established by the dominant company, scenery with double entry (sale company, purchase company), which brings into sight the final stock for the purchase company, the additions being eliminated.

Eliminating internal results regarding immobilization transfers is being controlled starting with extracting from the consolidation files of the possible active transfers significant among the group's companies and verifying the mutuality of operations in the files of the sale and purchase companies, controlling the performed entries based on the principles registered by the group (eliminating the surplus value, consequences on redeeming), verifying the repetitions of the previous exercise's entries and the corresponding re-treatments.

In our opinion, a real attention should have eliminating the dividends inside the group. The difficulty appears when the verification is done by comparing the received dividends with the given ones, as well as the received dividends with the participation percentage.

If the received dividends are in foreign currency, we recommend verifying the conversion of the foreign currency in the national currency and comparing them with the rate used by the foreign entity. For the not received dividends an explanation is being asked and there is a check if they were well registered.

Regarding the differences from the first consolidation there is a check of the amounts for all the titles purchased during the year, the entries made in the previous exercise, making a selection for testing the redeeming calculations, for verifying the calculations of the minority interests party regarding the evaluation differences.

For eliminating the titles, systematically there is a check of the entries, the connection with the consolidated reserves is being established, with the minority interests and the differences in the first consolidation. Also in this aspect there is a check on the wholeness, reality and continuity of principles.

Regarding the entries of eliminating mutual elements, they are generally verified through survey. Regarding the operations of eliminating participation and partition titles of own capitals, we will note that a whole control is necessary.

e. The tests of final coherence is a compulsory stage of verification work, considering the following objectives:

- the variation of own capitals in the balance, the company needing to explain the variation as well as other variations taken into account by the auditor;
- the consolidated result, which is compared to the total results of different companies, so that it will verify if the observed differences are justified through the performed re-treatments and eliminations.

2. Audition of the presentation and comments on consolidated accounts

The auditor is being sure that in the consolidated accounts there is being

presented adequate information and, at the same time, that in the enclosure there are being provided the elements necessary of a good comprehension of the whole, in relation to the obligations in this area.

The auditor also controls the honesty of the information given in the inventory report, controlling especially: the report's conformity with the financial situations, accuracy of the served mentions, reliability of the quantitative information which appears in the report, fairness of the analyses expressed by the dominant company's management in the narrative comments, correspondence between the group's general impression given by the inventory report and the data comprised in the financial situations.

3. Synthesis of the works. Before drafting a synthesis note is necessary to proceed towards a global control of the performed activities, before checking, in order to obtain the insurance, that the audit works on consolidated accounts are satisfactory. This control is necessary for obtaining the certainty that the work program anticipated for the accounts' control has been performed and has gone normally and also to have the certainty that the whole file was covered, that it is complete and that all the problems have been examined in a satisfactory manner.

The synthesis note comprises the most significant observations made by the auditor during each work stage. The mentioned observations are being analyzed together with the information necessary to establish and measure effects. This document is useful as basis of concluding the performed activities and generally comprises the following information: regarding the analyzed sequence, the corresponding work papers and the questionnaires, the synthetically description of presented anomalies and their possible effect on the results' account, consequences over the necessary audit papers, telling the impact of observations. Repeating the significant impacts aims to regroup the significant observations in order to insure the impact on consolidated accounts.

The internal synthesis note aims to provide conclusions regarding the mission and necessary elements to write the certification report, refinement proposals that can be done by the dominant company, repeating the necessary elements to be considered during the next certification mission.

At the same time with the redeeming program of regulations in the area of accountantship and financial audit, at the *acquis communautaire* there is a full process of knowing them in order to their proper application in practice (in fact, new requisites regarding the conformity of statutory audit of consolidated financial situations of the entities provided in the Directives of European Union Law ¹²).

Along with our lining up to the E.U., for all the activity areas, the legislative redeeming process becomes conformity requisite with the European legislation as well as the requests related to the implementation process.

3. Conclusions

In this context, even in Romania has become more and more necessary knowing and understanding not only the approved European regulations, but also their published completions and modifications. That is why we propose presenting the main provisions of the European norms in the area of statutory audit of individual and consolidated financial situations, as well as the main modifications and completions waiting to be adopted in this

¹² European Directives that control the audit of individual and consolidated financial situations.

sense.

The fourth directive of the Council (78/606/EEC) dated July 25th 1978, published in the Romanian Gazette no. 27bis dated January 10th 2005 provides within art.51 the compulsoriness of auditing annual financial situations of commercial companies by one or more persons authorized by the member countries to perform the financial audit based on the eighth Directive of the Council 84/253/EEC dated April 10th 1984 regarding authorizing the persons responsible for performing financial audit.

Yet the fourth Directive provides, within the 3rd rubric of art.51, that when the exception of non audition is granted for the shortened financial situations, the member countries have the obligation to introduce corresponding sanctions in their legislation for the cases in which the annual financial situations or annual reports of commercial entities are not drafted according to the directive's requisites, aspect still not emphasized at the level of Romanian referential, for which reason we feel is worth being mentioned.

The seventh Directive of the Council (83/349/EEC) dated June 13th 1983 regarding consolidated financial situations (published in the Romanian Gazette no. 27bis dated January 10th 2005) brings under regulation, within Section 4, the audition of consolidated accounts.

Thus, the consolidated annual financial situations of commercial entities are being audited by one or more persons authorized by the member countries whose regulations provide that parent company will perform a financial audit according to the eighth Directive of the Council 84/253/EEC dated April 10th 1984 regarding authorizing the persons responsible for performing the financial audit of accounting documents.

At the same time, we can conclude by saying that the structure of the audit report regarding consolidated accounts is similar (almost identical) to the one associated with the audition of annual accounts, for which we feel pertinent details will not be justified.

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METHODOLOGICAL FOUNDAMENTATIONS CONCERNING THE ACCOUNTANCY OF THE OPERATIONS OF PURCHASING STOCKS FROM COAL EXTRACTION

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Abstract: In order to prepare this work, we considered the particular importance of accounting information in the process to performable management of ensuring operations of stocks necessary to normal development of production from coal extraction. On the other side, it was considered as being appropriate the highlighting of the way in which accounting information mentioned is influenced by the complexity and specificity of entry operations in management of consumables and own finished goods that, mainly, refer to: the organization of an adequate flow in order to enter into the management, the optimization of stocks on types of goods and costs that they produce, rigorous implementation of accounting policies and the attenuation of internal risks related to the stocks etc. The aspects mentioned are approached in terms of increasing the credibility of accounting information, so it will be used, to the adoption of the best management decisions regarding the stocks.

JEL classification: M41, M29, L72.

Key words: accounting information, major accounting objectives, stocks specific for coal extraction, delivery with consumables, entries of own finished goods

1. Introduction

Stocks accountancy from coal extraction, as any other branch of economic activity, needs to be carefully organized, in a professional way, as to ensure, in a first place, the full satisfaction of information demand of important factors of the entity, both in terms of establishing, storage and consumption of all material current assets, under efficiency conditions, and in terms of the knowledge, analysis and attenuation of costs produced by these operations. Therewith, we shall consider, in an exigent way, the information demand of the third parties.

With reference to activities specific to stocks management, we note, as a first aspect, the fact that these stocks and, implicitly, the expenses occurred with them, directly influence economic and financial results, while the particularities of coal extraction place the material resources and the information related to stocks in a position of “major criteria for decisions adoption”.

Stocks, as it is known, represent quantities of material resources or products accumulated inside the entity's deposits in a certain volume and structure, for a determined period of time, in order to use them. During the storing, it is considered that

material resources are available, but they aren't used, so they are negative, placed outside the economic circuit, or they extend this circuit (considered a negative aspect). At the same time, the storing process is justified by the fact that in very few cases, the supply for daily consumption is profitable and possible, in order to avoid the formation of current stock.

It is imposed to carefully treat the entry process in management of stored goods as “necessary and objective” process, as a consequence of the need to develop the entity's activity and also for the fact that it imposes expenses concentered in the damage of some storage spaces, in transport-storage machines, in financial resources etc. Therewith, we may consider that stocks represent an investment for each economic entity, and funds thus used are immobilized for a greater or a lesser period of time and, implicitly, produce a significant cost that, in a justified way, enters in the category of essential managerial objectives.

Investment financial effort in stocks is commensurate by actual liquidity, considering the duration of immobilization, immediate breakup flows, storage costs and other expenses in order to finally assess the loss or the profit from ownership of material goods for production and sales. These aspects, and not only them, need to be analyzed, fact that, normally, can be achieved on the base of accounting information related to stocks, but the management capacity to correctly interpret and use this information decisively influences the effects of future economic decisions.

2. Essential accounting information regarding the stocks

Issues analyzed within this work are orientated towards stocks, as they are defined in an accounting way, meaning that they represent material current assets for which, in the case of the practical study, it is met only one of these two conditions: they are provided from third parties in order to be used in the production process or they come from own production in order to be sold during the normal development of the activity.

With respect to the objectives of stocks accountancy and implicitly of information generated by them, we considered as being justified that they be approached in the context of general dispositions regarding the annual financial statements¹, by means of which this information is communicated to those interested. In this sense, we note only the requirements regarding a true image and their qualitative features concentered in those attributes that determine their utility, namely: intelligibility, relevance, credibility and comparability.

In connection to these last statements, we consider as being relevant the opinion of the experts from the field² according to which “ in order to reach the objective of true image, the suppliers of annual accounts have to meet all regularity and sincerity requirements”, fact that, in our opinion, is valid also in the case of accounting information on stocks.

In other words, we consider beneficial to highlight the fact that, by means of synthetic and analytical accounts used in order to observe the stocks, are created the necessary premises for meeting these punctual objectives and, at the same time, the

¹ Accounting regulations in accordance with European Directives, Section 1, approved by the Order of MFP no. 3055/2009, Official Gazette no. 766 bis/10.11.2009.

² Tabără N. Horomnea E. and Toma C. Annual accounts in decision making process, Tipomoldova Publishing House, 2001, pg. 49.

essential objectives of the accountancy of these material current assets, from which we remember those regarding:

1. The compliance with specific rules of management of main categories of material goods, namely: stocks from own production, stocks to third parties, by types, disparities between the delivery and the reception of goods, which certainly in the property of the entity, such as disparities between the selling and the delivery of goods; goods delivered or sold with reservation and ownership clauses.

2. The implementation of rules regarding the assessment and the registration of stocks in the accountancy;

3. The promotion of prudence principle with the occasion of the assessment at the inventory time and of the registration in the balance of the stocks.

In this context, we underline the fact that we can not ignore the general objectives chartered by the Accountancy Law³:

Therewith, we consider that, by using the stocks accounts, it is also realized „the reflectivity of external flows , by informational links with debts and receivables accounts, substantial transformations of current assets from material into liquidity and inversely”. This **legal extent of the stocks accountancy** is completed with the information referred to global result established to the end of each management period.

Regarded as an economic rationality, it is considered that, by means of ordering into accounts of information regarding the stocks and, at the same time, the accounts as such, will obtain a true image on economic and financial statement of the entity and, mainly, to the description of goods and to the modalities to obtain them. Certified users and those interested by information presented are represented by the managers of the company, respectively the internal users that can appreciate and decide over the status of the entity at a given moment.

3. The delivery accountancy with stocks specific to coal extraction

In relation to the subject mentioned, we note that we'll orient the approach toward material current assets specific to the said extraction of coal, considering that there is not interesting the analysis of other aspects regarding the delivery with material goods used in other activities. At the same time, we underline that stocks elements we refer to have a reduced scope of coverage, being materialized only in consumables and in materials in the form of small inventory items, fact determining only the use of synthetic accounts presented below:

We consider that is not indicated to analyze the account **381** “Packaging” because it reflects only the packaging (for example metal containers, cartons, wooden pallets and PVC bags) in which are received the materials delivered that, usually, aren't significant and do not produce specific accounting operations.

With respect to inventories (302, including its stocks, and 303) we should note as a first aspect the fact that, in the case of permanent inventory, they offer, by means of the debt, information reflecting the provenience of delivered goods⁴, namely: 401 “Suppliers” or 408 “Suppliers – invoices to be received”, for acquisitions from third

³ Accountancy Law no. 82/1991, republished, with subsequent amendments, Official Gazette no. 48/14.01.2005.

⁴ Dragan C. Brabete V. – Bazele Contabilitatii, Universitaria Publishing House, Craiova, 2006, pg. 139.

parties and 542 “Cash advances”, with supplying from advances in order to be deducted.

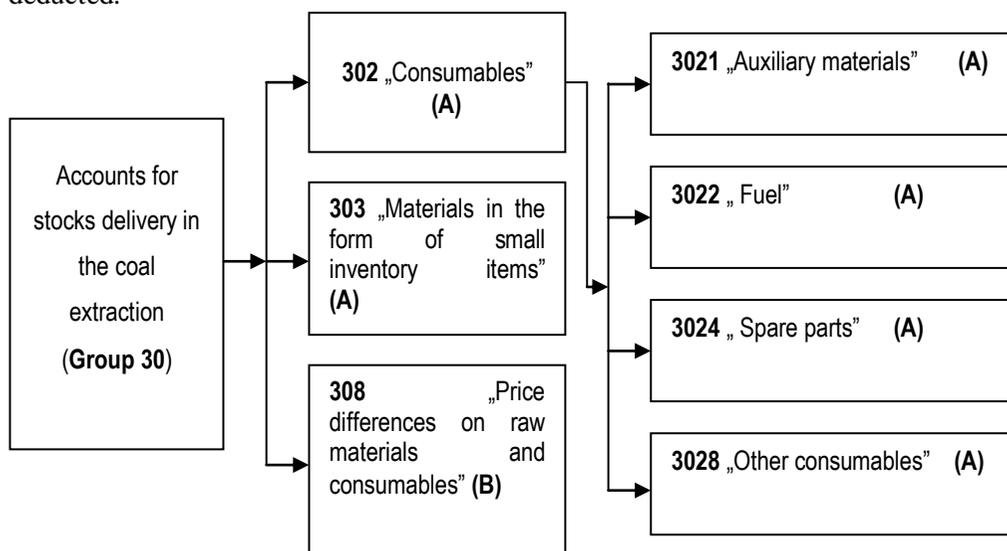


Figure no. 1. Synthetic accounts specific for the delivery with stocks in coal extraction

Correspondences for the debt of account 302 “Consumables” regarding the deliveries specific for coal extraction are also valid in the case of **its subaccounts** (synthetic accounts of II nd degree), according to their economic content, as presented below.

1. 3021 „Auxiliary materials”: technical acetylene, SP300 station battery, concentrated antifreeze, rubber band for general use, welding power cable, flexible cable sleeve, Rossel thermal probe, mineral water, non-carbonized water etc. Regarding the article „rubber band for general use”, it is mentioned that it is used in order to make repairs to „transporter bands”, that are included in the category of fixed ways (code: 2.3.6.4.1), with the use duration of 7 years a linear amortization regime.

2. 3022 „Fuel”: Premium unleaded fuel, diesel, alloy oil, oil for auto transmission, slush for bearings etc.

3. 3024 “Spare parts”: auto accumulator, clutch shaft, power shaft, engine block, control cable, cylinder head, polygonal loader bucket, track element, electric engine, hydraulic pump, gear, gear wheel, power transformer, voltmeter etc.

4. 3028 “Other consumables”: needle path changer, truck tire, alkaline battery, tractor room, bunker wear plate, special plate switch, discharge valve, concrete sleepers, pexal pipe etc.

In turn, the account 303¹³ „Materials in the form of small inventory items” mainly refers to: protective boots with slip resistant soles, anti-acid socks and boots, high voltage electrical boots, low voltage electrical boots, winter or summer simple overalls outfit, wadded costume made of polyester cotton mix fabrics, hidro-phobizing, welder leggings, welding mask of mine, goggles, protective shoes made of slip sole, waterproof protective apron, reminder jacket, etc.

¹³ Dragan C. Brabete V. – Bazele Contabilitatii, Universitaria Publishing House, Craiova, 2006, pg. 140

Regarding some goods identified as being spare parts or materials in the form of small inventory items, but having individual values, even more than 36.000 lei, much more than those minimal, of 1.800 lei, established for fixed ways and also use durations greater than one year, we note that we intend to make a distinctive study allowing to find a solution according to which the inclusion of related values in the effective production cost won't affect the meeting of prudence and independence principles, meaning to avoid the registration of their integrated value into expenses to their issuance in common.

If it is applied the intermittent inventory method, the first account mentioned, together with their subaccounts, based on methodological rules of use of accounting accounts, is used only at the end of the year in progress and to the begin of the following year. It is debited with the value, to the registration price, afferent to consumables existing in the stock, value that is established by means of inventory, in correspondence with the credit of the account 602 "Consumables".

A situation that is supposed to be highlighting regards the registration of delivery and consumption of materials in the form of small inventory items and it consists in the fact that it renounced to rectification value account that accumulated the depreciation of these goods, that was an intermediary in the correspondence with the debt of account with afferent expenses. It was considered that, although the period to use the materials in the form of small inventory items could be prolonged to several financial years, their existence in the patrimony can be followed by the help of analytical accounts.

In order words, we note that delivered stocks for which weren't received bills are registered on the base of "The notice of reception and finding of differences" in the debt of stocks accounts and the credit of the account 408 "Suppliers – invoices to be received", to the goods value estimated in this document.

The VAT related to these entries is reflected in the debt of the account 4428 "*VAT under settlement*", corresponding to the estimated value. Subsequently, to the reception of the bill, are registered only possible differences between the value initially estimated and the value from the bill, and also the obligation to the supplier, according to accounting formula known.

4. The accountancy of entry in management of finished goods

Exploitations and mining pits from coal extraction are organized to S.N.L. Oltenia, and their basic activity is to obtain the coal stock, as main product, and also the ballast stock, as secondary product, which give rise to accounting operations and information specific to their entry in the management of some deposits especially organized.

Usually, these deposits are organized in charging-discharging stations, delivery stations or as small technological deposits, located either inside the coal extraction pits or to the mine mouths. In terms of organization, they can have concrete flat platform or a pavement on the ground, by leveling and cylindering the surface, in order to avoid the degradation of coal by blending it with the store pavement. The design of any deposit requires the establishing of a sufficient number of supporting landmarks, located around and near the deposit, and also its shape (geometric or irregular), which is particularly important for regularly determining the quantity of coal existent in the stock and, implicitly, for verifying its integrity, by comparison with data recorded in the accounts. For deposits with a specific geometric shape it is used the method of determining that

amount, and in the case of irregular shapes, are applied the topographic and photogrammetric models that reach to vertical or horizontal sections. Moreover, the amount of coal thus determined allows calculating the production achieved so the entries in the management of the store, but using the following formula:

$Pf = Sf + L - Si$, where: Pf = physical output achieved, Sf = existent stock to the end of the month, L = deliveries to beneficiaries, Si = stock from the beginning of the month.

This last calculus is valid also in the case of secondary product, named ballast and, in both cases, it is justified by the fact that during the month, are daily issued, for each excavator “Informative notes regarding the output achieved and entered in the management of the store”. But, this needs to be checked in order to avoid possible errors and in order to obtain a correct calculus necessary in order to establish the wages of the working staff.

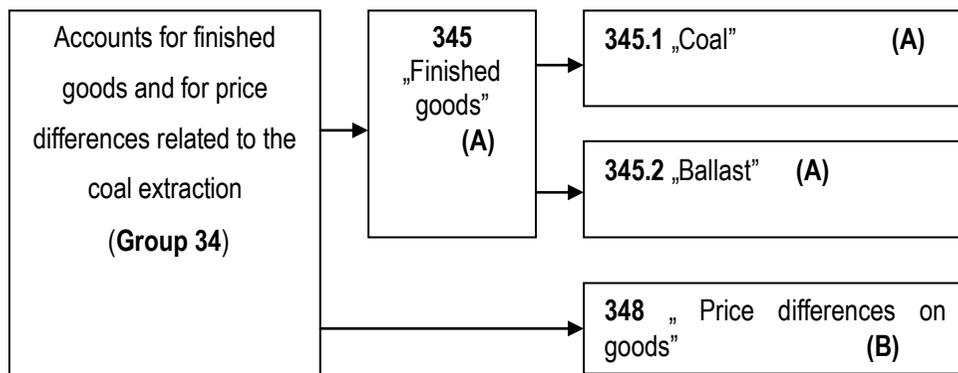


Figure no 2. Accounts specific for the entry of goods in the management of the entity

We consider that, for beginning, we shall mention a general aspect according to which accounting correspondences occurred by the accounts mentioned for the charging in management of finished goods obtained from own input activity are those established by applicable regulations, previously listed, with the accentuation that in this sense, we must use the account 711 „ Revenues related to the costs of stocks of goods”.

Onwards, we consider that, within the limit of available space, is enough to remember only some essential aspects relating to accounting correspondence of accounts of stocks mentioned, without being presented examples of accounting registrations.

Thus, we underline the fact that both analytical accounts of finished goods (345.1 and 354.2) reflect, in the debt, the output cost pre-established, related to the coal and ballast entered in the management of the deposit, by the credit of the account 711 „ Revenues related to the costs of stocks of goods”.

On the other hand, to the end of the month, it is used the account 348 “Price differences on goods” that is debited or credited by correspondence with the account 711 „ Revenues related to the costs of stocks of goods” for the difference between effective output cost and pre-established output cost, as this last one is lower and respectively higher.

5. Conclusions

The authors had the intention and considered that, in a large measure they succeeded to answer to the questions from this work. We argue this statement by the fact that, in general context regarding the importance of accounting information from managerial process, was highlighted some essential aspects regarding its opportunity in the case of the entry of stocks in the management of the entity from coal extraction. Among these aspects, were also assigned the objectives for solving of which analyzed accounting information contributes.

We also appreciate that the clear highlighting of the specificity of entry of stocks in the management of entities we refer to was facilitated by their delimitation depending on how it is obtained, respectively by purchase from third parties and obtained by own input, under the form of materials designed to productive consumption and finished goods designed to the delivery to the third parties, as coal or ballast.

For materials from the first category, consumables and materials in the form of small inventory items, were carefully made necessary identification on goods and their grouping on synthetic accounts of stocks, to which debt they are recorded and also some own comments there where appropriate.

Finally, we express our view according to which this work brings a modest contribution in terms of knowledge and credibility increase of accounting information specific for the entry in management of stocks corresponding to coal extraction.

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PREPARATION FOR IMPLEMENTING THE SINGLE EUROPEAN CURRENCY

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Abstract: This paper aims to determine the changes produced by joining the single currency. To achieve full economic integration, Member States should join the euro zone and harmonize their fiscal policies, including taxation, and other economic policies. The process of implementing the single currency will deal with various problems, like: functional problems, logistics problems, formal aspects.

JEL classification: G32, M41

Keywords: single currency, convergence methods, structural changes, information systems

1. Introduction

The only official document who offers some parts is Program Convergence for 2006-2009 submitted by the Europe Government Commission in January 2007 with an update in December 2007. Both program Convergence and BNR projections go on to the idea of a gradual progression fulfilling the Maastricht criteria, following that in 2012 Romania will join ERM2 exchange rate mechanism for the minimum required period of two years, so that in 2014-2015 will be possible to switch to the euro effective.

On the other hand, the current crisis may be the most serious test for the euro currency.

“Adopting the euro is not a short term perspective for Romania, because the state needs more time to get real and nominal convergence.” Fitch does not anticipate that: “Romania will adopt the euro by 2015”.

A condition of transition to the euro is to maintain currency in the European exchange rate mechanism (ERM II) for a period of two years. Romania has set the target to adopt the euro by the year 2015, which means that we will need to enter ERM II in 2013. According to a European Commission report in May, Romania meets only one criterion for adoption of the European currency, namely budgetary stability, but does not comply with provisions relating to inflation, exchange rate and conditions relating to convergence of long-term exchange rates.

Inflation of Member States wishing to adopt the euro must not exceed 1.5 percentage points average inflation performance of the three Member States, and the budget deficit must be within 3% of GDP. Annual inflation in the European Union was 3.7% in October. The debts can put in more than 60% of GDP, and during the two years in ERM II must maintain a margin of 15% to a fixed parity against the euro.

Single currency - the euro - eliminates these disadvantages and both benefits the consumers and enterprises.

- The costs of foreign exchange operations at the border, so called transaction costs, disappeared in the euro area. This reduces travel costs, whether for business, study or tourism. Previously, a person that would have DM 1000 in his pocket and this person is traveling in 15 countries, changing money in each of them has less than 500 marks when returning home - without having bought anything. Today, someone who travels with 1000 euros would return home with the same amount in his pocket.
- Euro helps single market's price transparency. Consumers and enterprises can easily compare prices for goods and services all over EU. This results in increased competition among suppliers and maintains pressures for reducing prices in the euro area. This transparency is favored by low and stable inflation, since prices changes may be easily identified.
- Transaction costs can be very important - before Euro Adoption they were estimated at 0.3 to 0.4% of EU gross domestic product, 20-25 billion. Companies suffered most of these costs, to help the movements of goods, persons and capital in the EU. With the disappearance of transaction costs in the euro area, these funds are available for encouraged productive investments. In addition, elimination of transaction costs in the domestic market makes the euro more attractive to foreign investors.

2. Objectives

This paper will focus on changes in all aspects: formal logistics, functional of economic system.

2.1. Convergence Methods

The euro is "fire proof" of the Romanian economy. The process of the transition to the euro is a key objective of romanian society.

The changeover will be a complex phenomenon that depends not only on macroeconomic indicators, but also on the social reaction, the environment office, consumers unions, the general population, will be able and willing to adjust to the rigors of European currency.

The literature speaks of nominal convergence and real convergence. There is an institutional convergence, but Romania has managed, with few exceptions, to harmonize with European legislation and institutions.

Nominal convergence criteria defined by the Treaty of Maastricht regards the countries that will be part of the "club" of the euro. Those countries must meet the rigors imposed so that their arrival in the "club" won't destabilize those that are already present.

A high inflation in either country would only make them to order and the others to import inflation and bring highest interest rates in the rest of the countries in the process of monetary union.

Higher rates of a State may be tempting to capital movements. A higher budget deficit or public debt is signs of an economy with high issues and problems.

This type of convergence criteria aimed at uniformity, cut differences to bring economies to a common denominator in terms of macroeconomic indicators, aiming to

allow Member States not to leave the squad for that such output could, destabilize the entire platoon.

Real convergence considers the differences between European economies. Reality continues to be different in EU countries: growth is increasing with different speed, gross domestic product per capital (GDP) is different between states, unemployment, wages are not the same in all states, and finally, the sharing economic sectors in GDP have features from state to state.

The euro adoption requires a mixture of monetary and financial decisions in the real economy and development strategies.

Two questions about what will happen with Romania's accession to the Euro, as happened in countries that have already passed to the European currency: the first is related to the exchange ratio that will be applied between the national currency and the euro, and the second refers to the immediate impact on prices.

A first question that arises is the effect of the changes expected on the ability of economic agents to absorb change without affecting, in a dramatic measure, the costs involved in the implementation process of the single currency.

Are announced a number of ways and means by which a company adapts its activities for working with the euro.

A number of internal and external factors of the environment of companies determine effective trade measures to be taken, we can mention: company size, main field of activity, the extent to which working with cash usage of IT systems, etc. Methods and measures that can be adopted by companies should be established in a custom system implementation, which is composed of internal developed rules depending on each company's own needs.

The purpose of these preparations is the rapid and smooth transition to currency euros, with minimum disruption and maximum efficiency in commercial activities of terms of cost. Experiences of other Member States can that summarize the practical preparations made on time that can help enterprises to enjoy as soon as possible the advantages of single currency.

There are risks of postponing until the last minute preparations and thus SMMEs have limited human resources, therefore should begin as soon as possible preparations for the changeover Europe, so that Euro can to be able to function at optimum parameters even in passing day.

Economically, it makes sense for a company to consider the impact of future changeover, and could help it to obtain a competitive advantage against other companies that have not yet begun preparations. The objective of all preparations is a smooth and rapid transition to the euro, minimum and maximum business interruptions cost-efficiency. Experience shows practical preparations for the timely pay and helps enterprises to take advantage of benefits of the single currency for their own business as soon as possible. Large enterprises are generally more easily able to handle challenges changeover than small and medium enterprises (Sees). In addition, survey shows that SMEs, especially small businesses tend to underestimate the phenomenon of what must be done to adapt their activities to Euro. There are risks associated with leaving these companies to process convergence too late.

3. Study: The implications of the transition to the single European Currency on information systems

The implications of the transition to the single European on information systems:

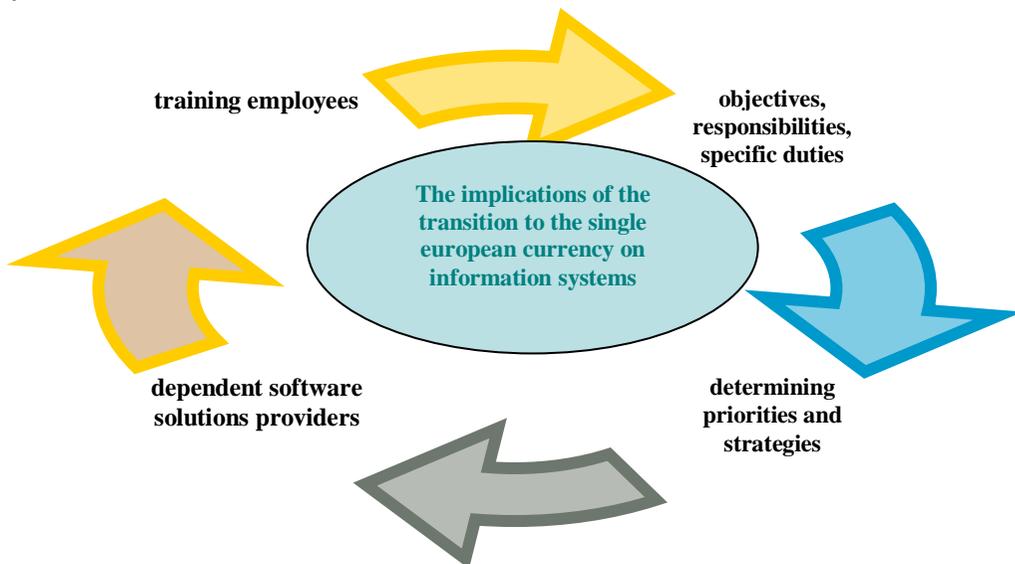


Figure no. 1 The implications of the transition to the single European currency on information systems

Adapting systems to the changeover is a complicated process that should not be underestimated; all businesses need to prepare a project with all the changes resulting from the changeover: what steps should follow the objectives and those responsible.

This implies: involvement of members from various areas of activity and the existence of knowledge the following areas:

- Specify the business and software are used (users and management);
- designing and developing information systems (systems analyst)
- technical aspects of information systems (programmers);
- management and accounting (accountants and auditors).

Troubleshooting changeover requires involving the users in identifying problems, but also in finding solutions for their resolution. The preparing start for the changeover to a company lies in creating a true picture of financial accounting information system, which requires:

- prepare a comprehensive list of systems that process financial accounting information, underestimating the number of systems to be changed can cause major problems after the strategy changes;

- documenting the technical details on how to implement systems: documenting software solutions acquired or created with its own resources, identification of programming languages and techniques used to system implementation. Well-documented systems, which use modern programming languages are easy to change, difficulties that can occur are scheduled instruments are not used by the company or by employees who no longer work in unity; estimating the degree of damage to the hardware resources of the changeover.

- Identify dependencies between systems: the interdependencies within enterprise, and those outside (customers, suppliers or banks). Dependencies between systems can lead to increased complexity issues to the switchover to euro currency.

Disturbance could be:

- enthusiastic participants in the project wish to remove difficulties can also create a vision far too optimistic;
- makers may tend, subconsciously, to promote changes.

Introduction of the euro affects all IT systems that operate with monetary units (these include systems used for billing purposes, states payment information and ticket sales management, management programs acquisitions, applications for stock management, and systems processing financial information, such as cash registers and other point of sale terminals).

Efforts to ensure that these systems are adapted in time to the new currency may require more time. SMEs should start by making an inventory of IT systems which will be affected by currency conversion. In addition, should be identified the hardware that require upgrading or replacement (eg. keyboards, printers, cash registers and vending machines).

One of the strategic decisions to be taken in preparation for adapting IT systems for SMEs refers to the possibility of integration adaptation arising from the euro within a broader IT project, to be implemented independently of the changeover. Such a combination would be appropriate in terms of an approach based on minimizing costs. Among the adjustments required by IT systems changeover include systems ability to process two currencies (the euro and national), to cope with the requirements relating to dual display of prices, to implement conversions between national currency and euro in accordance and conversion rules to process a large number of decimal places.

If IT systems of enterprises are connected with systems partners business, suppliers, etc... It is necessary to ensure continuous compatibility of these systems after currency conversion.

Generally, any new computer program purchased by SMEs in during the preparation process for converting currency should already be compatible with euro, avoiding the need for further adjustments.

To ensure proper functioning of all IT systems euro starting € on all applications that have been adapted should be tested carefully and repeatedly as soon as possible, to avoid faults and make necessary improvements before the IT systems become operational.

Before the final conversion into euros of archive files and databases is recommended to backup them.

4. Conclusions:

The first difficulty who hit companies in countries that expected to adopt the euro is related to problems of adapting their accounting systems and administrative systems. Major difficulties are found in large societies framework, in the transition period must align with general requirements which refers to the monetary union. Date of the transaction to single currency is the point from which all small and medium companies must report to the single currency, thus recommends using the software that will to be able to perform the conversion to the single currency automatically.

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IMPLICATIONS OF CHANGE MANAGEMENT IN PUBLIC ADMINISTRATION

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Abstract: Governments must face a growing complexity and a greater acute needs more specialized staff to manage and solve new problems. Classical Administration, governed by a set of specific legislation is not adequate for this purpose. But as we shall see, is not redundant, obsolete. The new public management system that focuses on services provided to citizens and requires coherent coexistence and interaction of three areas: public administration, business sector and civil society.

JEL classification: D73, H56, J50, J53, J88, M12, M54, Z13

Key words: change management; public administration; public organization

1. Introduction

Change is a continuous process of confrontation, identification, assessment and action. Change issue is an almost obsessive concern in the sociology of organizations, perhaps because of the emphasis placed bureaucratic rigidity, or practical problems facing incessantly, both business leaders and managers of administrative reforms.

A general definition which seems that is the essence of change management is a set of skills; techniques and disciplines by the complexity and specialization are transformed into actions and results through the organization. Adopt methods of change management is a difficult process, but necessary, so continuing despite difficulties. Change essentially means transformation or change the status quo, a change from a state of affairs to another, from one set of conditions to another.

Governments must face a growing complexity and a greater acute needs more specialized staff to manage and solve new problems. Classical Administration, governed by a set of specific legislation is not adequate for this purpose. Each organization has a particular culture, depending on certain changes be made.

2. Change Management: features, stages, levels of reform

Organizations are hierarchical in nature and have four levels of strategic, tactical, operational and performance: strategic (Ideas - Objectives - Policies), tactical level (budget plans), operational level (the current Order Rules) and the Executive (Strategy, Plans action). Essentially, change management can be treated with three definitions, the combined scope of its application.

Change management refers to the adoption of change in a planned, structured and organized. The center has the task of change management change, which is the study that we find in the future starting from current state and structured and organized process that will allow the transition from one stage to another.

Professional practice refers to the response; response to changes in the organization does not control or make a lesser extent (ex. legislative changes, climate change, social or political).

Expertise - refers to those methods, models, techniques and instruments used in content or subject matter of change management. It is drawn from sociology, psychology, economics, industrial engineering, systems engineering and behavioral study. A system is a set of elements (components) interdependent between establishing a dynamic interaction based on predetermined rules, in order to achieve a particular objective.

The first and most obvious definition of change management issues relating to managing change. Evidence is not necessarily unambiguous. Managing change is itself an expression which has at least two meanings. The first purpose of managing change refers to the adoption of change in a planned, structured and organized.

The aim is to implement a more effective methods and systems in an organization in full activity. Changes are found to be managed within the organization and are controlled by it. Perhaps the most familiar example of this type is to change version control information system development projects. With all these internal changes may be triggered by events originating outside the organization, in what is usually called "environment".

Thus, the second sense of the term change management refers to the response, response to changes in the organization does not control or make a small extent (ex. changes in legislation, social or political climate change, competition, changes economic, and so on). Researchers and practitioners alike distinguish a reactive response and an anticipation of these changes (a proactive response).

The second definition of change management is "an area of professional practice. There are dozens if not hundreds of independent consultants who would quickly say that they are engaged in planned change, that change agents, they manage change for their customers and that their methods are perfectly consistent with the practices of change management. There are many small organizations (consulting firms) whose directors would make such statements with respect to business organizations. And of course, most management consulting firms have experience in managing change.

Some of these experts claim that helps their clients manage the changes facing - changes over which they were subjected. Others argue that it helps their customers to make changes. However others say offers to help by taking on the task of managing change is adopted. In almost all cases, the process of change is treated separately from the characteristics of the situation. It is widely recognized that these processes of change management must be performed by agents of change.

Us away from the idea of change management, the area of professional practice, already appears to redefine change management: change management content or subject matter. It consists of models, methods and techniques, tools, skills and any other form of expertise behind any activity. Content or subject matter of change management is drawn from psychology, sociology, business management, economics, industrial engineering, systems engineering and the study of human behavior and organizational.

For many practitioners of these components are linked and integrated expertise in a set of concepts and principles known as General Systems Theory (General Systems Theory). It is not clear whether this area of professional practice should be called a

profession in itself, a discipline, an art, a set of techniques or technology. So far, it is enough to say that expertise is extensive, relatively consistent, if not eclectic, which strengthens the field and on which most practitioners would agree - even if the object of their high character does not eliminate variation on this theme.

The process of change was characterized as having three basic steps: unfreeze, change and refreeze. This view is based heavily on adopting a systemic concept of homeostasis or dynamic stability of Kurt Lewin. Potential usefulness of this framework is to adopt a systemic view, phased process of change. What can be accused of this framework is that its not possible if the organization is in a situation of extreme instability or not allows changes to the status quo for longer periods of time. Thus, the point of beginning and end of frame-shift-thaw stability refreeze is that for some people or organizations are a luxury. For others, internal stability is the major factor that can lead to disaster.

Reform processes are characterized by changes at four levels:

1. State reform - new responsibilities;
2. Public sector reform can be achieved, for example, through decentralization, establishment of new departments or merging existing ones;
3. Organizational development - involves the development of new procedures, new departments;
4. Development of new competencies at the individual level civil servants.

One aspect of state reform is new to the responsibilities of government or government bodies specialized in the economic sector for the development of civil society. Another aspect is trying to implement good governance principles that include:

1. Transparency - should be clear how and why government decisions;
2. Accountability - must be clear to citizens who decided, who developed it and why, be specific in this sense in works made by officials, their contact details: name, position, no. phone and e-mail this principle is of great importance in the context of EU policies;
3. Consistency - consistency is important not only between departments but also the consistency between one government and one that follows. Good governance does not mean refraining from old policies. This is ensured by a strong parliament and a mature and wise mentality Parliament members (can not start from scratch, ensure continuity of public policies);
4. Effectiveness - civil society is not passive; participate in public debates;
5. Participation - public (civil society, trade unions, etc.); is very important in decisions taken by the Government and Parliament.

In the early stages of processing an administration, from a traditional to a modern approach behavior, results-oriented, probably the best solution is for political leaders to stop the process of sharing authority and budget. Later, as the system becomes more sophisticated and faster administration and general management of strategic change from the results (outputs) the impact of policies (outcomes), the emphasis may be placed on personnel and budget or personal information. These strategic choices are determined to a certain extent and cultural factors, the national specificity and their reflection on and analysis requires a combination of abstract logic, debate and practices what fits a particular society at a given time. There is one clear answer can be "taken off the shelf" and applied worldwide.

Change can be regarded as a dynamic balance of forces on the one hand, are pushing the change, and on the other hand, causes a resistance to change. Items for

change or create pressure for change is technological change, the explosion of knowledge, obsolescence of products or improving working conditions. Furthermore, elements hampering change or create resistance to change are outdated attitudes, mental blocks, disinterest, fear of new, fear of failure, low level of professionalism or changing the structure of employment.

The two major categories of factors influencing changes in the organization are external factors that can be controlled to a lesser extent by managers and internal factors acting through changes in the organization. They are represented by the decision-making processes, communication, interpersonal relations, leadership, management style etc. In addition to the factors listed, there are a multitude of factors, which by nature of their content, generating change. But there are other factors underlying the change.

All these factors can be grouped into four main groups: policy makers, economic, socio-cultural and technological factors. Policymakers are law policy, political ideology, laws / international regulations, universal rights, wars, local, system or business tax and trade union groups. Economic factors are competition, suppliers, employees respectively, exchange rates, unemployment rates, wage rates, government economic policy, economic policy in other countries, lending policies or change status (from state to private) - degree autonomy. However, technological factors are information technology (Internet), new production processes, computerization of processes or changes in transport technology and socio-cultural factors are demographic trends (employees, taxpayers), changes in lifestyle, attitude towards work, attitude against minority groups, gender issues, environmental concern or business ethics.

Clear and deep perception of the need for change by managers of the change process is essential. Perception of change is important but not sufficient and should therefore be supported by a complex of activities from effective management. Therefore, one of the most important aspects is to understand the organization's staff, managers and subordinates, the need for change. The staff organization should be helped to understand that the current organizational structure must be adapted to new requirements posed by the transition to a market economy, the current information system should be changed and transformed into an effective tool to reach managers and their decisions need a background participatory, using modern management methods and techniques.

This step, crucial, because it entails actually create human resources of organization belief that the current management system and current personnel policy is not compatible with market requirements. Understanding the need for change involves, moreover, that further knowledge management processes and performance with older structures to new conditions lead inevitably, sooner or later, to critical situations that organization.

Process of change in the organization must take the following steps:

- Opening or thaw - at this stage tries to change the balance – between the desired situation for change and effective.
- Change or transformation - the changes are introduced that allow the transition to the desired position.
- The closure or freezing - stage in which the system aims to achieve new balance. This may be done by using the rules, organization culture and organizational structure.

Change management process involves a systematic succession accompanied by a permanent feedback. Implementation of change management involves the definition of factors that generate change, recognition, understanding the need for change, diagnose problems involving change and identify methods by which to make the switch, determining how to implement change, overcoming resistance to change, change implementation and evaluation of implementation change.

To act, the manager must know very well the situation involving change problem. This requires a stage which requires a diagnostic problem. The main phases of diagnosis are:

- Identifying the type of problem. Involves, in essence, finding all the problems facing the managers of which actually results in a change. It could use (the knowledge problem) a series of methods and techniques: the list of issues, ideas etc. First, it is recommended to identify scope of the change and its type, whether it will be total or partial, rapid or slow. But certainly the complexity of issues and opportunities affecting the organization are actually implementing the change process.
- Formulation of positive and negative symptoms that cause problems. Undoubtedly, any problems identified or not, directly or indirectly generates positive and negative symptoms. In this phase must be clearly structured both positive symptoms and negative on the current problems it generates, is made possible by analysis in the previous phase.
- Establishing the causes that generate the problem and the effects their statements of fact or may have for each type of problem. Essential, in this phase, is to understand the nature of the causes that have generated positive and negative symptoms. The causes may be direct, indirect, principal / secondary. Effects can be immediate, medium or long term.
- Specify ways in which problems can be solved and the resources involved in this process. The main ways of doing things this way will lead to reduction / amplification of influenza cases that have resulted in negative symptoms, primarily, but not positive. Then determine the resources necessary procedures involved in such action and the implementation of change.
- Estimation results arrived at by solving the change. The last phase is designed to anticipate measurable and quantifiable aspects of efficiency that will solve the problems arise from the change.

Resistance to change is the main obstacle that faces change. Reasons that generate resistance to change can be personal interests, misunderstanding of the fundamentals change, tolerance to change (carelessness) and fear of the consequences of change or trend limit on the effort. To minimize this phenomenon, but resistance to change, managers can initiate a set of activities such as preparation time change through discussions with those involved in this process, supporting and encouraging those involved in this change through effective participation, organization debate on issues of change, interpersonal influence or exerting pressure, which can generate resentment and hostility.

Change is, for many people, uncertainty or lack of security on their future at work, relations with others. It is therefore very likely that people fear or anxiety about change, to lead them to attempt to block, to resist its introduction. In a sense, resistance to change is a positive phenomenon because it proves there is a degree of stability and allows prediction of organizational behavior. Resistance to change but the effects are

mainly negative: it can cause conflicts within the organization, but mostly it is a hindrance to progress.

3. Trends in development of change management in public organizations

The center has the task of change management change, which is the stage that we find in the future starting from the stage, and structured and organized process that will allow the transition from one stage to another. Change problem may be greater or less, in terms of ultimate purpose or implications, can turn to individuals or groups of individuals belonging to the different directorates or departments, the entire organization or only certain components of the environment in which the organization operates.

Organizations are generally formed in highly specialized systems and there are many criteria used for grouping and grading. Some are in trade, other in the production, distribution and others in the field. Some are focused on profit, others are nonprofit. Some are public, others private. Some part of the financial services industry including banks, insurance and brokerage activities. Others are industry and hence the classification of original equipment manufacturers or service industry. Some are health industry, as service providers, as insurers and policyholders. Some are strictly limited, others not. Some faces fierce competition on the market, others have formed partnerships and other monopoly. Some state capital and other private equity. Some are on the market long and others not. Some have strengthened their market position over time, while others have emerged stronger as a result of mergers or acquisitions. No two organizations are identical. Each has its peculiarities.

The difference between public policies and social policies in Romania generates controversy. But the most significant difference is that while social policy means government intervention to solve social problems, public policies can be proactive, ex. sustainable development and responsible government agencies may decide to hire a specialized institution for developing alternative intervention, policy implementation and its evaluation.

Increase the speed of information processing and rapid transfer of innovation in a global market is external pressures on the underlying organizational change. Change is caused by forces of the internal environment of the organization: staff turnover and lack of motivation, absenteeism and low productivity. Public sector managers must invest and its increasingly more time and energy in planning organizational change management. Planning effort of changing challenges derived from turbulent and competitive environments, applications beneficiaries and decision makers who mandate change. Planned change programs need to involve individuals from all organizational levels and provides for measures undertaken at both individual and organizational.

Governance based on new technologies, digital government e-Government is "specific set of public management systems and resources, which, using ICT, aims to optimize the administrative act." From the experience of other organizations, many planning efforts and change management have failed when they have proposed to provide viable solutions to organizational problems. Draft change very much wasted time, money and energy. This is because many managers and consultants wrong when rapid intervention and diagnosis relies on summary. Planned change involves going through a complex process involving several stages, which makes analysis and diagnosis, to develop an action plan on which the change is implemented, because, finally, an evaluation of the results . The new public management system that focuses

on services provided to citizens and requires coherent coexistence and interaction of three areas: public administration, business sector and civil society.

Worldwide, the public sector begins to take modern management techniques and practices used in private sector. But this process, the transfer techniques of the private sphere into the public is not easy anywhere. Sometimes this means changing the structures and methods established over time and there is always the argument that private companies must pass the test market (profit) while public sector test is a more complicated problem. And public sector must pass a kind of "test market", which takes the form of political dispute for power, expressed in part by the Government of votes won through achievements. There is still the same. The difference is clear when you talk about liability and about its various forms, applicable to private organizations and the public.

Classical Administration, governed by a set of specific legislation is not adequate for this purpose. Operation of a modern public administration, flexible and efficient is a prerequisite for the structural transformation of Romanian society, to achieve a profound reform in all spheres of socio-economic growth of the citizen's role in decision making. Also, these changes must be part of the root coordinates imposed by the EU integration process, which means achieving - the deadlines - of operating standards characteristic of the Member States.

Government must be able to meet the challenges it has faced. Civil society and private sector to develop, the administration must find a partner to facilitate communication, provide levers and tools so that they can express themselves and develop. A rigid administration, constrained by their resources, rules and regulations may not offer the most prompt response to the needs of society, representing such a barrier is often difficult past.

Conceptually, the problem concerns the transition from state A to state A'. The transition from A to A' is usually performed as a result of setting and achieving the three types of goals: transform, reduce, and application. Transformation objectives focus on identifying differences between the two stages. Reduction targets focused on determining ways to eliminate these differences. Implementing objectives focus on implementing measures that have the effect of removing those differences.

Major changes in the organization simply do not occur. Implementation of change requires the development of a truly complex forces in facing pressures for change and forces opposing change. This multi-stage process known as:

- Awareness of the need for change and raising awareness among managers to initiate change in the organization;
- Diagnose the situation based on information collected and analyzed;
- Identify all the forces that support change, and those who resist change;
- Develop options for change, choosing the best (or most convenient);
- Actual change, that all elected implementation version appropriate action;
- Detection of possible shortcomings and eliminate them;
- Strengthening of new values that support behavioral changes made.

Orientation events that trigger a change in cultural ideology and organizational structure can be:

- Opportunities or major failures in the context of the organization (economic crisis, economic boom, the emergence of a new generation of technology).

- Change in ownership and / or management organization (merger with another organization, achieving a joint organization, changing the organization's senior management, etc.).

In general and especially national security no single change strategy. You can adapt an overall strategy or what is called a great strategy, but for any initiative, you get better results from a combination of strategies. The choice of the above strategies will be used in this combination of strategies. They depend on a particular type of factors:

- The degree of resistance. A strong resistance involves a combination of coercive strategies that are adapted to the environment. A low resistance or competition requires a combination of empirical-rational strategies and legislative and educational.
- Target population. A large population requires a combination of strategies, something for everyone.
- Stakes. High stakes involve a mixture of the four strategies. When the stakes are high, nothing can be left to chance.
- Temporary Framework. Short-term temporary frames require a strategy of exercising power. Long-term temporary frames require a mix of empirical-rational strategies, regulatory, educational and adapted to the environment.
- Expertise. To have adequate expertise in implementing the change requires a certain combination of the above strategies. Do not have this expertise available involves a coercive strategy.
- Dependence. This is a double-edged appearance. If the organization is dependent on people management ability to order or ask is limited. On the other hand, if people are dependent on the organization, their ability to oppose or resist is limited. Essentially, mutual dependence involves almost always a degree of negotiation, based on expertise and experience of both staff and the possibilities of employee loyalty, the training and job characteristics leading to such a dominant position for "the right person at appropriate "but also decrease opportunities to engage elsewhere.

4. Effects of change management in public administration

Classical Administration, governed by a set of specific legislation is not adequate for this purpose. Operation of a modern public administration, flexible and efficient is a prerequisite for the structural transformation of Romanian society, to achieve a profound reform in all spheres of socio-economic growth of the citizen's role in decision making. Also, these changes must be part of the root coordinates imposed by the EU integration process, which means achieving - the deadlines - of operating standards characteristic of the Member States.

An efficient administration requires, however, improving institutional capacity at central and local conditions, through appropriate use of administrative levers - that by ensuring transparency, fairness and accountability in serving the public and spending public money - and can ensure a real increase in quality of life of citizens. For this, public institutions must be competent, flexible and adaptable to new requirements and put in the service of citizens. In the process of European integration, they must be able to implement regional development policies and ensure full use, effective and legal structural funds. To achieve an efficient administration will act in the following areas:

- Introduction of quality standards for public services;

- Fully professionalize public administration apparatus;
- Strengthening the capacity of emergency intervention and preventive action capacity and management of these situations;
- Implementing comprehensive and coherent measures to prevent and combat corruption;
- Application of codes of ethics for officials and civil servants;
- Streamlining administrative institutions and practices;
- De-bureaucratization, simplify and expedite administrative procedures;
- Improving planning and evaluating public policies and inter-institutional cooperation.

In order to eliminate the risk that judicial inefficiency, corruption and deficiencies that are still open the system to endanger national security objectives of the strategy, in line with constitutional provisions on separation of powers under the law, satisfying the following conditions, requirements and measures responds appropriately to the expectations of the Romanian people:

- Ensuring effective and genuine independence of the judiciary;
- Ensure transparency and quality of justice;
- Increase efficiency and accountability of the judiciary;
- Ensuring access to justice;
- Preventing and combating corruption in the judiciary;
- Strengthening institutional and regulatory system of judicial cooperation within the EU and internationally;
- Radical improvement of the penitentiary system.

5. Conclusions

Achieving these objectives is the primary task and primary responsibility of the competent bodies that govern the work of justice, given that Romania's EU integration depends directly and immediately how the Romanian justice system will prove its independence, non-partisan character, capacity to act under state of law and the real effectiveness in the fight against corruption. In the context of this national effort, other state institutions are required to ensure the necessary conditions - legislative, organizational, human and material - for task radical transformation of the judiciary and its contribution to achieving the strategic objective of integration become possible.

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APPRECIATION CONCERNING THE NOTION OF TAX ON TRANSPORT MEANS

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Abstract: The continuous improvement of legislation concerning the assessment, control, retrace and collection of local taxes and rates represents a perpetual concern of the central government in order to avoid miscellaneous interpretations of the current legislation, to extend the tax base and to harmonize with the European Union guidelines. The enhancement of local taxes and rates collection as well as a highly management of efficient local expenditures are the major tasks of the local governments.

JEL classification: H21, H23

Key words: the fiscal reform, the tax on transport means, the change on transport means, the fiscal certification, the European Union requirements

1. Introduction

The fiscal reform in our country, seen as a priority of harmonization with the European fiscal systems, has triggered frequent changes of the fiscal legislation. The Romanian fiscal legislation has both to comply with the European Union requirements, but also to match with the interests and various aspects encountered in the stages of the country development.

Normative documents (laws, decrees, government dispositions, stipulations etc.) which assess taxes and fees which represent the base of the whole fiscal activity, have to present clear, precise, authoritative statements (or explanatory notes) which are not ambiguous and misleading. Also, the final objective of any fiscal stipulation should encourage work development, surplus value and fiscal and social equity.

2. Legal settlements on tax on transport means

The revenues of local governments have developed and gradually varied in order to supply the local budget expenditures. In the composition of own fiscal revenues, a significant share is represented by local taxes and fees.

After 1989, the tax on transport means, one of the major sources of local own revenues, has been the target of the Romanian fiscal policy, whose major concern was the improvement of legislation on the assessment, control, retrace and collection of this local tax, by virtue of the general obligation of all citizens to contribute to the collection of the financial resources compulsory for the public institutions working¹⁴.

¹⁴ The Romanian Constitution revised by the Law 429/2003 approved by the referendum from October the 18th, 19th

In this respect, in accordance with the principle of oneness of taxes due to local budget, and to extend the tax base, with the law 343/2006, the phrase *charge on transport means* was replaced with *tax on transport means*. Thus, motor vehicles become property components and therefore are subject to taxation, and the contribution that the owners of the latter have to make to the local budgets is subjected to the legal settlements on the tax on this kind of incomes¹⁵.

Moreover, it has also been regulated the allocation of the pressure of taxation on the owners of „dismemberments” of the right on property within the agreement of the financial leasing whose object is motor vehicles.

In the light of the above, it has also been settled the obligations of the parties of the financial leasing agreement related to the declaration of the financial statement at the financial body within the local government, making precise settlements on its situation¹⁶.

The tax on motor vehicles, calculated according to their type and practical use, has to be paid by the owners every year, in two equal trances, due at the 31 of March and the 30 of September included¹⁷.

Both the contents of the fiscal law and the arrangements of execution, regulated by the government disposition no.44/2004 concretely specify the assessment of the fiscal load/ pressure and its deduction from taxation, which has the following results¹⁸:

a) Because it is a tax on property, the fiscal load is established by the declaration of the owners of the financial statement at the financial institution/body where the taxpayer has his or her place of residence, within 30 days from the date when they became proprietor, or possessed one of its „dismemberments”, and the obligation of payment becomes foul, liquid and due on the first day of the following month after the acquisition of the motor vehicle.

b) The tax on transport means is no longer required beginning with the first day of the following month after the right of property ceased through:

➤ The transfer of the property right to another person that is resident or not, regardless of the ways stipulated by the law;

➤ The theft of the vehicle which is subject of taxation, during the whole period of time when the owner was illegally deprived of its good. The validity of the situation can be proven with papers issued by the authorities entitled to investigate the case.

Because it is a tax on property¹⁹, one should consider the fact that the law has to be supplemented with new stipulations which exonerate the owner from the tax payment in the following situations:

➤ The confiscation of the motor vehicle through a final/irrevocable adjudication;

➤ The damage of the whole vehicle in an accident on the road, or by a natural disaster, arson, explosion proven by the papers issued by the insurance agencies or by the legal persons authorized to dismantle motor vehicles;

¹⁵ Mehl, L.,Beltrame, P.- Le systeme fiscal français, Puf Paris, 1992

¹⁶ The Law 343/2006 referring to the modification and rectification of the Fiscal Code, in M.Of.nr.662/1.08.2006

¹⁷ The Law 571/2003 of the Fiscal Code, in M.Of. nr.927/23.12.2003

¹⁸ H.G. 44/2004 referring to the approval of the methodological norms of the Fiscal Code appliance, in M.Of.nr.112/6.02.2004

¹⁹ Tulai, C., s.a. - Probleme actuale ale fiscalitatii in Finante si Controlul Financiar in actualitate, Targu Mures, 1998

➤ The statement of the tax payer that certifies the physical disappearance of the motor-vehicle otherwise than through theft or damage.

The paper that certifies the fact that the tax on transport means has no back taxes, is *the fiscal certification* issued by the authorized fiscal bodies within the local government where the respective motor vehicle is recorded. The validity of the right on property transfer papers between people living depends by the existence of the motor vehicle. This document also authorizes the territorial departments of the Head-Office of Driving Licenses and Motor Vehicle Matriculation Board to matriculate or radiate the motor vehicles from their records.

The fiscal certification does not present budgetary debts or claims on litigation, but they mention their existence as well as their ratio.

It is also possible to retrace motor vehicles, as goods subject to taxation when the owner changes his or her place of residence, by forcing the latter that within 30 days, to declare his/her new place of residence to the fiscal bodies within the local government new area.

3. The share of the tax on transport means in the total own revenues of the local governments

The analysis of the statistical data suggests the fact that the revenues collected as a result of the tax on transport means assessment have gradually developed every year, (they varied from 76.988 mild lei in 1995 to 1.522.276 mild lei in 2004), due to the national car park growth of the individuals and legal persons cars ²⁰.

The share of this tax in total local own revenues made up of taxes and charges collected between 1995-2004, has a steady variation between 1999 and 2002, but afterwards it decreases from 11,04% in 2002 to 7,60% in 2004. This can be explained by the gradual development of the own revenues as a result of the improvement of the tax assessment and collection system enhanced by the development of the decentralization process and the consolidation of the fiscal autonomy of the local governments recently.

Because of the persons and goods transport activity growth, which is a trigger of the Romanian economy progress, in the analyzed period of time, at 31.12.2009 the national car park has registered a number of 5.324.348 motor vehicles cars which is a progressive variation of 4,96% from 2008, in spite of the economic crisis in our country²¹.

The coming years anticipate an increasing number of the motor vehicle cars because of the initiatives of the development of the road infrastructure programmers, as well as the car production at Dacia Group Renault Pitesti, Ford Craiova and Tractoare Brasov. This situation is statistically presented by the table no.1 and the figure 1.

The analysis of the data suggests that the tax on transport means has a significant weight in the total revenues made of local taxes and charges collection. The table 1 and figure 1 also suggest that there are significant variations from one year to another, with an important decrease of the weight of this sum in the total in 1998 and 2005-2006.

²⁰ [http:// www.mfin.ro](http://www.mfin.ro), the site of the Minister of the Public Finances

²¹ The data base of the Head-Office of the Driving Licenses and Auto vehicles Matriculation Boards

Table no. 1

Year	Revenues from local taxes and charges (mild lei)	Tax on transport means (mild lei)	The share of „the tax on transport means” in „ the revenues from local taxes and charges” (%)
1995	420.520	76.988	18,30
1996	440.523	83.616	19,00
1997	618.400	99.179	16,03
1998	8.883.022	178.179	2,00
1999	3.191.371	373.823	11,71
2000	4.664.900	548.179	11,75
2001	6.970.052	828.167	11,88
2002	10.282.676	1.135.846	11,04
2003	16.400.336	1.286.008	7,84
2004	20.015.871	1.522.276	7,60
2005	3.575,0	166,3	4,65
2006	4.572,6	207,3	4,53
2007	6.444,6	508,2	7,88
2008	6.442,6	595,0	9,23
2009	6.808,8	649,6	9,54

Source: Statistical Reports of the Minister of The public Finances²²

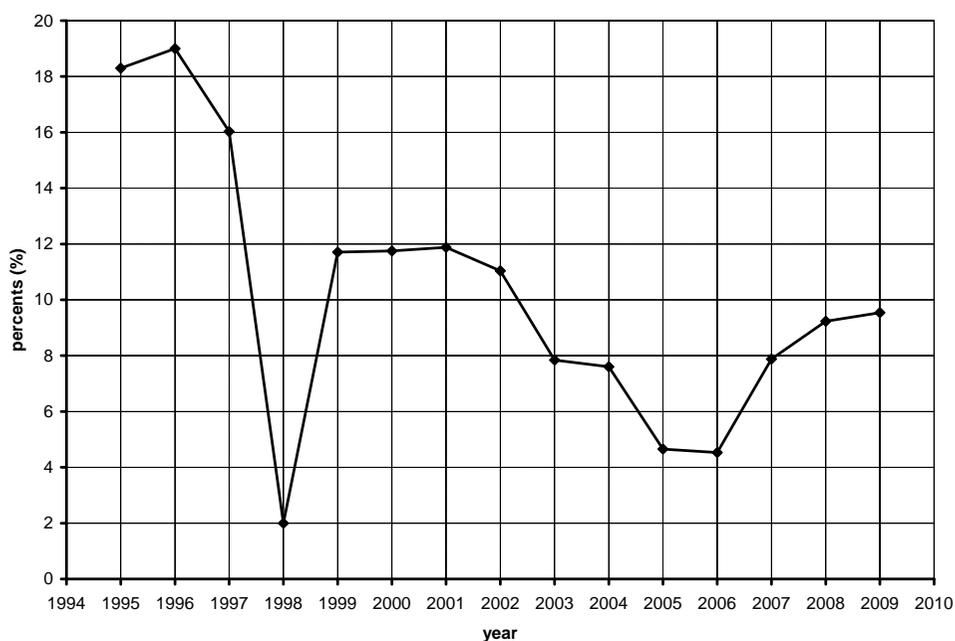


Figure no. 1

4. The correction and rectification of fiscal stipulations due to the introduction of the notion of tax on transport means

The Law 571/2003 of the Fiscal Code has been almost thoroughly modified by

²² [http:// www.mfin.ro](http://www.mfin.ro), the site of the Minister of the Public Finances

the rectifications of the Law 343/2006. One of these changes is the contents of the article 215 from the normative disposition which clearly stipulates that the phrase *charge on transport means* used by the Fiscal Code shall be replaced by the phrase *tax on transport means*.

The replacement of the notion of charge with that of tax, triggers a series of modifications of the forms and contents of the stipulations referring to this fiscal load, because the tax specifies the taxation of the property as an obligatory fiscal payment which does not imply an immediate counter service, while the charge represents a taxation of the usage of some goods, and the user benefits from the services of the public institution, that is, in this case, the local authorities²³.

In this respect, it is compulsory the modification of the structure of chapter 2 from the annex 1 of the Law of Local Public Finance no. 273/2006²⁴, as it follows:

➤ Act 4 of chapter 2 shall be supplemented with act b¹ entitled *tax on transport means*.
➤ The stipulation from letter a) from the contents of act 7, chapter 2 entitled *charges on transport means* has to disappear as it is in antithesis with the modification of the Fiscal Code by the art. 215 of the Law 343/2006.

➤ Also the notion of *tax on transport means*, a fiscal load on property, implies the important modification of the art.261 from the Fiscal Code, as it follows:

- The above mentioned article binds the assessment of the tax on transport means with the matriculation of the motor car vehicles, implying that this administrative operation represents a suspensive condition of the authority's right to assess the tax as well as the motor car vehicle owner obligation to pay this contribution;

- As it is a tax on the right on property over the motor car vehicle, and it is not a toll charged for it being used on the public roads, one considers the fact that the right of local governments to assess this tax is valid beginning with the first day of the following month after the owner gets the property right on the vehicle, and it is no longer valid as soon as the owner loses its right.

Consequently, the radiation of these vehicles from the records, does not entitle the owner to require the cessation of the obligation of payment due to the local budgets, as the present law specifies, in spite of the old stipulation referring to the charge on transport means and the maintenance of the matriculation condition within the text of art.261 from the Fiscal Code.

Moreover, the government disposition 195/2002²⁵, with the subsequent modifications and rectifications, republished in the Official Gazette 754, part I from November the 7th 2008, specifies that the owners of the motor vehicles or the persons assignee to use them, are forced to matriculate or register them, before their being put into circulation.

In order to eliminate these inadvertences, it is advisable that the article 261 from the Fiscal Code to be modified and structurally changed as it follows:

Any person which acquires the right of property on any transport means shall pay the due tax every year until they lose the quality of proprietor, with the exception of the cases when the law specifies otherwise.

In this respect, another modification should be made to the article 94 from the

²³ Matei, Gh. - *Finante Publice*, Reprografia Universitatii din Craiova, 1998

²⁴ The Law 273/2006 of the Local Public Finances in M.Of. nr.618/18.07.2006

²⁵ O.U.G. 195/2002 republished referring to the circulation on public roads, in M.Of.nr.958/28.12.2002

government disposition 44/2004²⁶ referring to the norms of practice from the Fiscal Code, as it follows:

The phrase transport means stipulated in the article 261 paragraph 1 from the Fiscal Code refers to any mechanic means which circulates on a road, or water, with or without a means of auto propulsion, usually used at persons or goods transport, or at delivering any kind of services or works..

5. Conclusions

The replacement of the notion of charge on transport means with that of tax on transport means triggers a series of corrections and rectifications of all the existing stipulations. Making these necessary changes only in certain areas, and keeping what has already existed in the others, leads to miscellaneous fiscal and legal interpretations and to errors in the application of the law.

One considers that these modest suggestions regarding the improvement of fiscal stipulations are made in order to avoid the ambiguity and the equivocal situations when one interprets the text of a law. Moreover, they will contribute to the appropriate sizing of the taxable base and the avoidance of the „legal” tax evasion, and thus determining those who manage the public resources to have initiatives of improving the citizen’s welfare and to be more responsible for the public expenditures.

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²⁶ H.G. 44/2004 referring to the approval of the methodological norms of the Fiscal Code appliance, in M.Of.nr.112/6.02.2004

STUDY ON DECISION –MAKING IN THE FAMILY (QUANTITATIVE MARKETING RESEARCH CONDUCTED IN SFANTU GHEORGHE AND SURROUNDING AREAS)

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Abstract: Consumer’s behavior is the main component of marketing research. Consumer’s behavior is influenced both by cultural factors and social factors and by personal factors. The main purpose of this study is to determine if there are differences between Romanian and Hungarian with respect to the roles the family members assume in the household.

JEL classification: M30, M31, C14

Key words: consumer’s behavior, family, culture, nationality, nonparametric tests

1. Introduction

Consumers behavior, in a specific approach, can be defined as a multidimensional concept par excellence, as specific result of a system of dynamic relationships between processes of perception, information, attitude, motivation and effective expressions that characterize the integration of the individual or of the group in the space described by all consumer goods and services existing in the society at a given moment, through individual or group decisions relating to them.²⁷

The main factors influencing the purchasing behavior are: the cultural factors, the social factors, the personal factors. The cultural factors exercise the most powerful and broad influence on consumer’s behavior. Culture is the main factor to influence a person's desires and behavior. A culture is composed of secondary cultures that provide increased opportunities for identification and socialization of their members. Secondary cultures include persons belonging to the same nationality, religion, race or geographical regions. Many such cultures form important market segments and in order to meet their needs marketers are developing specific marketing products and programs.²⁸ Cultural factors also include social class.

Besides the cultural factors, consumer’s behavior is also influenced by social factors such as: reference groups, family, role and social status, family members are the most influenced reference group.²⁹ A buyer’s decisions are influenced by personal

²⁷ Florescu C., Mâlcomete P., Pop N. Al., Marketing. Explanatory Dictionary, Economic Publishing House, Bucharest, 2003, p. 156

²⁸ Kotler Ph., Marketing Management. Analysis, Planning, Implementation and Control, Teora Publishing House, Bucharest, 2001, p. 236-238

²⁹ Kotler Ph., Keller K. L., Marketing Management, Akadémia Publishing House, Budapest, 2006, p. 249-254

characteristics, particularly age and stage of life, occupation, economic factors, lifestyle, personality and self opinion.³⁰

2. Objectives

This paper aims at three goals:

1. Presenting an image that will reflect the roles of husband and wife in Romanian and Hungarian families,
2. Knowing the extent to which the division of roles between partners can be considered traditional,
3. To find an answer to question if children are treated as equal partners in decision making.

3. Methodology

The process of obtaining primary data is complex and takes place over time. The main method of obtaining primary data is the survey. Sample survey, in its traditional form, is a research, a precise study aimed at measuring or investigating something³¹.

To achieve this marketing research we applied the descriptive technique, namely primary data collection. Marketing quantitative research was conducted based on a survey, the questionnaires were administered face to face and self administrated. The questionnaire includes structured questions, unstructured questions and introductory questions and personal questions. Primary data collection period was from 16.08.2009 to 03.12.2009. The research covered 200 respondents, 100 Romanians and 100 Hungarians in the city of Sfantu Gheorghe and the surrounding areas.

4. Analyses

Often the concepts of household and family are considered to be synonyms; starting from this aspect, we consider it necessary to clarify the differences between the two mentioned concepts.

Household means all persons who normally live together, generally having family ties and participating wholly or almost wholly in generating the income and its spending.³²

The family is that household where at least two people live together who relatives are by birth or marriage³³.

Marketing specialist interest is focused on analysis of those roles that family members play and on studying the influences occurring between them with respect to the purchasing of various services provision or products.

In the United States, for example, husband and wife's participation in the buying process differs strongly according to the categories of products purchased.

³⁰ Kotler Ph., Marketing Management. Analysis, Planning, Implementation and Control, Teora Publishing House, Bucharest, 2001, p. 244

³¹ Lefter C., Marketing Research, Theory and applications, Infomarket Publishing House, Brasov, 2004, p. 71

³² Florescu C., Mâlcomete P., Pop N. Al., Marketing. Explanatory Dictionary, Economic Publishing House, Bucharest, 2003, p. 273

³³ Bodonyi E., Busi E., Hegedűs J., Magyar E., Vizelyi Á., Family, child and society, Bölcsész Konzorcium Publishing House, 2006, Budapest, p. 9

Previously, the wife was dealing with food purchase and the purchase of various items of clothing. These traditional roles of purchasing are changing and marketing experts consider that both men and women can be considered as target groups to the same extent.³⁴

As we known, men appreciate strength, intelligence, efficiency and achievements. When they do something they do it for a single reason, namely to prove that they are able to do it and desiring to improve themselves. Generally, for them success means self-fulfillment.³⁵

Over time, however, men's expectations have changed divergently. The "new" man needs to show his emotion, be sensitive, to take over other tasks, such as buying different products.³⁶

Women consider that love is very important in their life, communication continues, beauty and "deep" relationships. Women are convinced that the most important purpose is to maintain harmony and the cooperation full of love³⁷. However nowadays women's role has changed substantially, she does not deal only with domestic affairs but has a job, earns her own income like man, that she can spend according to personal or family needs.

In recent decades, children's role gradually changed too, they are treated as equal partners in the family, before making an important decision parents are asking and take into consideration their views. Some researchers consider that this is due to the fact that the period when adults become parents phased. The vast majorities of children today have their own "income", receive pocket money from parents and grandparents. Confused on gifts, they give money for winter celebrations, Easter, the last bell or birthdays.³⁸

4.1 Presentation of results considered to be of interest

To the question on who is the "head of the family, 58% of Romanian respondents are convinced that woman is the most appropriate person for that role and only 42% of respondents believe that man is the right person for this" task " while 40 % of Hungarian respondents felt that women are the most appropriate person to fulfill this role, and 60% of respondents felt that the men are the most appropriate person to act as "head of the family."

With respect to making decisions in the family, with Hungarian respondents we have obtained the following results: 55% of Hungarian respondents make decisions together, also involving family members in decisions, 32% of respondents in important matters seek for advice in decision making and 13% of respondents for minor problems make individual decision. In the case of Romanian respondents, 50% of respondents

³⁴ Kotler Ph., Keller K. L., Marketing Management, Akadémiai Publishing House , Budapest, 2006, p. 250-252

³⁵ John G., Men arrived from Mars and women from Venus, Fabula Publishing House Ltd, Budapest, 1995, p. 12

³⁶ Töröcsik M., Trendes of Consumer's behavior, Akadémiai Publishing House, Budapest, 2006, p. 118

³⁷ John G., Men arrived from Mars and women from Venus, Fabula Publishing House Ltd, Budapest, 1995, p. 15-16

³⁸ Hofmeister-Tóth Ágnes, Consumer Behaviour, http://www.progressziv.hu/index.php?link=magazin.tmp&sz_id=596&funk=5 May 5th, 2010

make decisions with family members, while 30% seek for advice in important decisions and 20% of Romanian respondents make individual decisions on less important matters.

75% of the Hungarian respondents consider that the most appropriate person to decide what the shopping list should include is the one dealing most with house holding, with Romanian respondents it was found that the percentage of those indicating this answer possibility is lower i.e., 50%; 14% of Hungarians interviewees consider that the person who is mandated to "manage family's treasury" must also deal with buying different products, the percentage being 35% in case of Romanian respondents; and finally 11% of Hungarian respondents consider that person that wins the most should decide what to include in the basket of goods, a higher percentage, i.e. 15% of Romanian respondents had the same opinion as Hungarian respondents .

To the question who is the best person to organize a trip in their view, the results were the following: 21% of Hungarian respondents consider that the woman is the most appropriate person, while the percentage of Romanian respondents who say the same thing is higher, 30%. The man is seen in the hypostasis of the trips organizer by 13% of Hungarian respondents, the percentage of Romanian respondents being lower, 8%. We also found that most of the respondents, both those belonging to the Hungarian nationality, 66%, and those who are of Romanian nationality, 62% believe that family should organize together the desired trip / journey.

Analyzing data for ranking scale where respondents had to rank the importance of people they advise with when they have to choose between various strategic alternatives, we found that both with Romanian and Hungarian respondents, the second family, meaning that the person forms, has a more significant influence in choosing the alternative strategies than the family of origin, i.e. the first family. Both with Romanian respondents and with Hungarian ones children come third concerning their involvement in making strategic alternatives.

Regarding the statement "The desires of children are priority in making decisions" we found that in the case of Romanian respondents a very small percentage (3%) chose the alternative "totally disagreement" while in the case of Hungarian respondents the percentage is higher, 13% of respondents chose that option. The option "disagreement" was chosen by 1% of Romanian respondents and 18% for respondents belonging to Hungarian nationality.

4.2 Presentation of results obtained from the nonparametric tests

Next we shall present the results obtained by applying various statistical tests. Following the bivariate analysis, using the test we found that with Romanian respondents there is a connection between respondents' residence (rural or urban) and the variable that refers to the person best suited to organizing trips, but, in exchange, with Hungarian respondents there is no connection between the two variables mentioned. Also the application of the χ^2 test revealed that there was no link between Romanian and Hungarian respondents' income and the variable that refers to the most appropriate person (woman or man) for organizing trips.

We would like to highlight that before applying the two nonparametric tests (Kolmogorov-Smirnov and Kruskal-Wallis) the two databases have been met. When applying the Kolmogorov - Smirnov test we concluded that in the two groups (gender of respondents) there is no difference in the opinion relating to the claim that the wife can not make a decision without the husband's approval. Also, there is no difference

between the two groups (rural and urban) with regard to the opinion on the statement "In making important decisions we do not have to consult with anybody."

After applying the Kruskal-Wallis test was found that between the five groups (respondents' age) of the population there are no differences in terms of respondents' opinion on the assertion that "Decision making is a difficult process." From the analysis of average ranking that the respondents in the older generation (over 60) consider that it is not easy to make a decision, a result that was expected considering the fact that these people have a longer life experience. Application of the Kruskal-Wallis test showed us that between the five groups of the population there are no differences regarding the assertion "Before making a decision I consult with others too"; the average ranking following the application of this nonparametric test showed that respondents over 60 are those interviewees who consult with others before making a decision. The next question which arose was whether there are differences between the level of education and the opinion of the interviewees with respect to the statement "Spontaneous decisions are best decisions?" Nonparametric test results showed us that there are differences between the four population groups and the opinion on the above mentioned statement. It resulted that high school interviewees think that spontaneous decisions are best decisions however respondents with higher education consider the smallest extent, that spontaneous decisions are good.

5. Conclusions

Following this quantitative marketing research we conclude that in Sfantu Gheorghe and in the surrounding areas, the concept of "modern man" is more characteristic to Romanians than to Hungarians. From this brief recital we consider that Romanian male respondents are likely not to feel embarrassed if women earn more, also involving more in household works. Also it was revealed that Romanian families grant greater importance to expectations, wishes of children than Hungarian families, although in both families children occupy third place in terms of their involvement in making strategic alternatives. Therefore, with respect to the division of roles in the family, to Hungarians family the classic one is characteristic, while for the Romanian families, the modern one.

The differences between the two nationalities were expected as each nationality has several features that define it very well.

Every day we make a decision, more or less important, that more or less influences our lives. Albert Einstein said: "We can live our life in two different ways. The first possibility would be to live it so that there would not be miracles or to live it so that every moment of life would be a miracle "... the chosen alternative only depends on us.

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CORPORATE SOCIAL RESPONSIBILITY AND MARKETING

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Abstract: In this paper we showed that marketing is responsible for serving the interests of the society. Initially, marketing was condemned for instigating to socially adverse behaviors. Nowadays, the reputation of marketing is restored, as public decision-makers discovered the importance of marketing in generating desirable public behaviors. Marketing techniques can be used successfully to produce the intended outcomes.

JEL classification: M14, M30

Key words: marketing values, marketing ethics, corporate social responsibility, consumer behavior

1. Introduction

Famous Scottish professor of moral philosophy, Adam Smith, was among the first to be clear and plausible if the moral and honest individuals pursuing their own interests, are working to the benefit society as a whole. Perfection requires a difficult process of creation, also a 'struggle' with the producer of raw materials to facilitate new goods, new services and experiences. Of tobacco products, services, porn, firearms and chemical warfare agents can be both legal and market goods and also profitable, but they are the most dubious social value and also the 'pure' goods or means of de-civilization. The market should systematically respond to requests emanating from the non-economic environment (Ionescu, 2006). Values should govern our personality and actions. Crisis is the symptom of modernity, among others, and moral crisis. Economic development and industrialization have led to a deepening crisis. Marketers are in a position to address the following issues relating to:

Privacy: all information and seek to protect our own existence in the current century in which we are assaulted 24 hours from 24 media outlets, telephones, e / spam, banner ads on the Internet, etc (Bird, 2007).

Debt: we are all encouraged and helped to spend more, we buy luxury products, giving us the conditions (in Romania deceptively...casual payment).

Natural Environment: huge quantities from packaging, especially plastic, acquisition excess product and pollution are a direct consequence of consumerism.

Health: occurrence and risk of obesity epidemic is due to orientation, "Weaknesses" by our confectionery and lipid as well as companies engaged in unreasonably high prices for food nutrients.

Children: advertising that makes some important range of products for children (though knowing that they ... are not solvable) and dissemination in the media of irresponsible images (including some cartoon series).

2. The critique of marketing

In fact, they are basic human needs of today? The essence of moral crisis is diminishing religiosity, and the result (Borza, A, Popa M., Osoian C., 2007): blind obsession for money; Rule of selfishness, lack of sincerity proliferation; Loss family as a social institution; output (manifestations) of sexuality in public, increase discord; Inferior reached, to judge the "superiority of wisdom Ignorance impose limits, replace divine humanity; Replace divine humanity, the Earth has more importance than the sky, today's man is alone and empty, devoid of landmarks, the object manipulation, the illusion of being deceived by false values (Cioran, 1990), World no longer offers authentic values and neither man has nothing to ask of this world (Cioran, 1990), Man is no longer able to work, to define, understand the meaning of complementarities of its origin and the end, Romanian form of life suffers from a lack of dynamism primordial "-" Let us be born of fatigue and tears Romanians Dacians "(Cioran, 1990); anguish despair of modern man is given the absence of any prospects (Cioran, 1990), amplification of conflict- individuals, between individual and society, between social groups, between generations, between different ethnic groups, etc. Democracy is more likely in affluent countries than in poor countries, according to Lipset's thesis.

Morality no longer occupies a prominent place for peace to our souls. Science invent other ways to achieve happiness. The approach to progress and modernity, we changed our habits and perceptions about ourselves and about life. Today, people address various scientific fields such as politics, religion, culture and economy, such as areas distinct "not admitted involvement in a core area to another.

Today, thanks to the explosion of mass media and the Internet, any information about any area can be covered in a record time. Marketing law extends to a unique rhythm. Transparency means that current promises to be respected. Consumers choose one brand or another world more depending on the attitude of social responsibility demonstrated by the company to its employees, rather than depending on other criteria such as price, warranty period (validity), and others, and few companies transnational able to build a seamless image ...

The issue of social responsibility is inherent in society organizations. The company has modern (and have) very large social power to take decisions about people: whom to hire, whom to fire and who to promote. It needs power to establish rules and discipline required to achieve results. Non-profit organizations have much greater power than that of firms. Refusal to admit a student may mean that not allowing him to have a professional life. On the other hand, an untrained student - future specialist can become a burden on the employer and the national economy. Why are there no students who practice a specialty occupation? Why Romanian students migrate abroad after graduation? The power of the organization may be limited by political power (constitutional restrictions) and the courts. Milton Friedman, Nobel laureate, said that a company has only one responsibility: economic efficiency. We agree, judging from the

fact that a firm has a profit at least equal to its cost of capital is not socially responsible. It wastes resources of society (Drucker, 1998).

In the long term, companies will prevail over the right to not give proof of good character. Firms must differentiate between a person's needs and impact assessment on the person's welfare, but also the welfare of nations. Worldwide public likes to buy from companies with civic character, to whom, they care. " But practice shows that each company has a number of dishonest companies that can create a rogue that domain. For example, smoking a cigarette meets the person's need, but it affects the health and increase public health costs (Kotler, 2006). In Romania, there were many unsuspecting consumers, eager to take part in plans to 'get rich quick "and finally were injured.

In Romania, there were many unsuspecting consumers, eager to take part in plans to 'get rich quick "and were finally deceived. You wake up in the morning to work for a company passionate about making the customers and the community, rather than the mere fact of being profitable. For example, among the following has been taken into account the importance attributed by the evaluation criteria employed by companies in Romania. The most important criteria: the employee who is treated with respect, recognition of merit, the work itself alleged activity; Opportunity to develop specialist skills, wage levels, working atmosphere, feedback from the supervisor, working with top-quality management; Degree invested responsibility, internal career development opportunities. The least important: The compensation of overtime, budget travel in the country or abroad, regular recreational conditions (trips, parties), recreation spaces, regular physical recreation conditions, conditions offered for lunch.

Consciously or not, marketers violate their commitment to consumer confidence. Even some organizations world-wide fall in this sin. The UN experts and the pharmaceutical industry, have been heard in the Committee on Social Affairs, Health and Family of the Council of Europe Parliamentary Assembly. Newspaper, *Le Parisien* "accuses some members of the World Health Organization to work for large corporations and even faramaceutice are paid to maintain a state of hysteria in the swine flu. The organization denied the allegations made by Dr. Wolfgang Wodarg, a renowned epidemiologist German Socialist MEP, along with 14 other MPs from all political parties, said that WHO has exaggerated threats posed by flu, describing it as a 'pandemic "under pressure from pharmaceutical companies. European Health Committee asked the British government's representative, Paul Flynn, to report on this issue and present it to the Council of Europe, which will then adopt a recommendation. Swine H1N1 influenza pandemic killed at least 14,142 people around the world from its appearance, according to a new report by the WHO. , "*Le Parisien*" also presents a list of experts paid by pharmaceutical companies.

One of the charges against current and incisive marketing is that companies convince consumers that they need "of certain goods and materials that will be categorized as 'inferior' if you do not possess. So the question exists, Who controls the market? Businesses or consumers? "The truth is that every day appear new ways to buy, hold and use products and services. The old times of 'marketing king, when firms make the game and decide on what should consumers know or do, are gone forever.

Another accusation is this: "Marketing creates artificial needs?" Marketing is accused of inciting consumers to buy products they do not need. But what is needed? - A basic biological motivation, desire is the way society has taught us to extinguish. For

example, thirst is a biological need, and recommends a product marketers to meet this need.

„ Need not always an obvious relationship with the product. " Why buy a perfume? - "To feel beautiful, confident and seductive", that you need there. Marketers consumers to believe they are those set out, buying their products. Thus they will become beautiful and seductive (on this point can be made a criticism) and not that artificial needs are created.

'Advertising and marketing are needed? "Said sociologist Vance Packard for more than four decades," Considerable efforts are often undertaken with impressive results, to channel our habits of not buying guide our decisions and the process of reflection by means of processes from psychiatry and social sciences. "economist John J. Galbraith accuses the media and television are important tools in manipulating the masses. They can issue repetitive communications and incentives aimed at everyone. Many believe that marketing products arbitrarily bound by certain social attributes, resulting in a materialistic society in which we are judged by what we possess.

But the products are designed to existing needs, and advertising is only meant to make us know the existence of such needs and products. From the point of view, "Information Economy", advertising is an important source of information for consumers, the economic cost can rise to the equivalent of finding a product as a solution to a need. In conclusion, advertising is just a service supported by some consumers, in the sense that it reduces their search time.

'Marketing promises miracles? "Advertising leads consumers to believe that the products have magical properties, miraculous, likely to transform their lives. They will become wonderful, will have an influence on the feelings of others, will succeed in life and be relieved of all troubles. From this point of view, advertising works and mythology in primitive society, that is simple and encouraging answers on complex issues. In fact, advertisers do not know enough people to handle. It is already known that the index of new product failure is 40-80% for consumer products. People think that advertisers have an inexhaustible arsenal of magic tours and scientific techniques to manipulate. The reality is that a firm fails when bidding success products (good) and fails when it proposes mediocre products.

3. Marketing for the interests of the society

Concerns for the welfare of consumers goes back to the beginning of twentieth-century.

In many countries contesting against the consumer movement exists. In the U.S., Adbusters association promises a day without shopping, a weekend without TV and parodies of commercials. In Italy, Culture Jammers Manifesto proclaims his opposition to the 'spirit polluters ', the advertisers," On the ruins of the old culture, we must create a new one, possessing a non-commercial spirit. "Researchers involved in formulating or evaluating public policy such as the 'sincerity' product labels, clarity of information presented in advertising or the prohibition of 'exploit' children TV shows that actually are nothing but advertisements for toys. More and more companies choose to protect or improve the natural environment through their work, adopting the so-called green marketing.

Green Marketing is a marketing major section of the firms engaged in the serious situation of environmental problems facing mankind century.

Economic growth of China and India, which together hold more than one third of world population raises serious questions about the planet's ecology. Meadows the 1972 report, the Club of Rome, was hailed by politicians as alarmist and heavily polluting industries by multinationals. Then, China and India were 'dormant'. U.S. are by far the largest emitter of CO₂ in the atmosphere (Friedman, 2007).

Many companies reconsidering their business, addressing a market in full expansion, as the organic products, adopting a long-term optical and an overview of the torque value creation. Some are responsible for marketing and focused efforts to reduce unnecessary packaging, such as Procter & Gamble, which introduced rechargeable bottles of textile fabric.

Separate 70 years, "social marketing" is branch of marketing, called the onset used to influence the behavior of individuals: to reduce tobacco consumption, increase physical activity, improve nutrition, decrease the risk of stroke, the prevent heart attacks, limit the spread of HIV / AIDS, to control diabetes, prevent the spread of communicable diseases, reduce the use of contaminated needles by drug administration, to prevent birth defects, reduce the number of cancer cases, improve oral health, to detect early breast and colon cancer, prevent adolescent pregnancy, etc. Social marketing aimed at issues such as drunk driving, using mobile phone in a responsible manner, drowning, domestic violence, sexual abuse, fire, preparing for contingencies, in safe keeping of weapons, the port by bicycle riders protection safety, pedestrian safety, seatbelt use, suicide, accidents at work, hearing loss, proper use of child seats, quitting school, donating blood, adoption of a pet from a charitable society, adoption of children, vote , etc (Kotler Ph., Nancy L., 2008).

Social marketing use marketing techniques applied to sales of beer or detergent, to encourage positive behaviors such as fight against illiteracy and to cast off negative behaviors, such as driving a vehicle while intoxicated. Despite all the efforts made by researchers. , the regulations and industries involved, the consumer's worst enemy is often himself. Often described as a rational decision maker tries to calm choose products and services for its health and personal welfare, and his family and society. In reality, desires, choices and actions often induce negative impact on consumer in the society. Among the harmful behavior, excess alcohol consumption and tobacco promotes social pressures and cultural value of money encourages actions such as theft or insurance fraud. Dealing with the ideals of beauty and success can cause frustration inaccessible ego's. It is false to assert that in some situations the consumer, like an addict, can not control little or no consumption: whether it be alcohol, cigarettes, chocolate or sweets, coffee or Coca-Cola, and these are examples of products that control consumer.

He who has the impression that the whole bet expense of substance and solicitude can not even be in vain. Belief in luck is expressed in bet rapacious auxiliary momentum. Belief in luck is a sense of fortuitous necessity in the way events are coded. In its various mutations and expressions, it has very important consequences for economic efficiency of any community which makes its presence felt appreciably (Veblen T., 2009).

Moral hazard arises under a contract of insurance (life, health, etc.), where uncertainty leads to a dysfunction of the market supply-demand relationship. This anomaly results from objects of nature - hence the risk be morally acceptable.

Many consumers are not only destructive or damaging behavior in social, but also illegal. Certain types of destructive behavior are due to a rejection of consumption,

which justifies the deliberate disfigurement or mutilation of products. These actions may have some bearing more or less serious, such as weakening or burning a building, an underground frames, the counterfeiting of products, destruction of a chair in the cinema, etc., leading to the dissemination of viruses computer firms posing great difficulty, or declaring a true flu epidemic of swine influenza virus.

Buyers are most limited resource of a firm date. However, there are managers who most of the time, count money, "instead of numbers to customers who have stepped in". Trading on all dimensions globe takes place in an accelerating pace, thanks to communications, transport and financial flows. International trade is in the most intense activity in its history. Brands like Sony, IBM, Ford, Bayer and Indesit boasts a global reputation. Firms address international markets, in a spirit of marketing, because traditional markets do not offer many good opportunities. Termination of communism in Eastern Europe has favored the emergence of growing markets (Kotler, Ph., Armstrong G, 2004). The value of intangible assets (including 'brand value') is growing, representing about 75% of the market value of companies listed in Fortune 500. Today, a company adopt a style of business management and assessment different in assessing the amount of intangible assets, i.e. intellectual property, which will generate income in the future.

4. Conclusions

In conclusion, we can say that marketing plays a significant in role in ensuring a congruence between buyers and society's interests. Marketing, if used responsible, is capable of protecting the social interests and of developing responsible behavior. If consumers are said to be negatively affected by ads and commercials, the prevalence of social marketing can lead to improved behaviors, in the future.

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FEATURES OF CAREER MANAGEMENT IN ROMANIAN HIGHER EDUCATION

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Abstract: The aim of this article is to present the features of career management in Romanian higher education, having to consider the fact that the changing of the political system previous to 1989 led to major changes regarding all the other sectors of social life. The transition to a market economy, decentralization and separation of powers, as well as the new perspectives that the education system was offered have led to an acute crisis of this system, based on the inflexibility of the system, on its impossibility to quickly adapt to new social conditions, on the legal vacuum and the acute decline of the Romanian economy. Under these circumstances, the educational reform appears as a utopia, as an absurd struggle with both external factors and internal ones. The didactic staff's understanding of the new social mechanisms by staff and building a motivating career could lead to the restoration of the lost balance.

JEL classification: I2, M12

Keywords: career, higher education

Introduction

Concerns about career choice and development issues have emerged long ago under the form of vocational orientation and reorientation, both in our country and especially abroad. Particular attention has been given to vocational orientation regarding low-age school children, starting from the idea that the choice of a profession is an important decision, highly irrevocable in nature. Once choosing a profession is difficult to change it because it involves waste of time and energy. From a social point of view, abandoning a profession for which you have invested money and energy is a waste both for the individual and society.

Vocational orientation and career development have been dealt with more from an individual perspective, the organizational one being only implicit. Whatever the tendency to denote a concept at a given moment, reality is the same (Manolescu et al., 2007). Whether it is called vocational orientation and counseling or career development and counseling, you cannot neglect individual desires, aspirations and motivations and the demands of society or of an organization cannot disappear, even if they are different; the conditions of putting it into practice make the only difference.

Career management is the process of planning and implementation of goals, strategies and plans that enable an organization to meet its human resources needs, and individuals to fulfill their career goals (Klatt et al., 1985).

Career management plans and shapes the individuals' progress within an organization according to the assessment of organizational needs, as well as to the individual performances, potential and preferences of its members (Armstrong, 2009).

Career development is an organic process that does not follow a preset program (Burlea Șchiopoiu, 2008). Each career stage leads to a higher level of self-understanding as a result of success or failure, reshaping the way in which the individual sees himself with his own potential and limitations.

The main objectives of career management (Heneman, 1989) are:

- promoting of appropriate career development policies according to the type of activities developed and to individual and organizational needs and abilities;
- meeting organizational needs for development and enhancement of positive or favorable image of the organization by recognizing the staff training and development needs;
- integrating the individual needs and aspirations with organizational needs and goals;
- identifying and retaining the best employees or those with certain career prospects by meeting their short and long term professional needs and personal aspirations;
- elaborating career development plans or introducing special promotion schemes for skilled employees for whom there are no adequate jobs available;
- guiding and supporting competitive employees to achieve personal goals according to their potential, their needs and aspirations and their contribution within the organization;
- helping employees to identify skills and qualities needed for both current and future positions;
- providing the necessary employee training and development in order to enable them to meet any level of responsibility, provided they have the potential or capacity to achieve it;
- developing career pathways in order to guide individuals towards as many directions as possible;
- revitalizing the employees who show a certain stagnation or involution of their careers;
- obtaining mutual benefits both for the organization and its employees.

Changes in the educational field, reconsideration of the values and norms implicitly, put pressure on the alteration of the concept of career.

Because vertical movements have served before as external guides for gaining work experience and because hierarchies are being removed, people are now bound to rely on their own internal guidelines, such as development, learning, integration.

An individual's career orientation is important when related to his profession (Peeffer, 2010). Out of the compatibility of these two issues there result important consequences for the individual, for his behavior and attitudes at work, as well as for his state of balance and satisfaction.

It is essential that individuals carefully choose their profession; they have to think about what exactly it would imply on a long term, what are the specific activities, types of organizations, opportunities, possibilities to exploit their native potential; there may be a difference between the external perception of what that profession is like and what it really implies (Lefter et al., 2008).

Keeping track of a career means pursuing an employee's past, present and predict his future path within the organization.

Career could be defined as *an ascent of each individual, as a result of the*

sequence of professional activities or professional positions, based on the attitudes, knowledge and skills acquired over time.

1. Initial training of didactic staff in Romanian higher education

Analyzing the theoretical concepts and the actual educational practices that can be identified in various educational systems in the world in terms of training future teachers, there can be observed similar elements. There is certainly a common point identifiable within all training concepts, regardless of the paradigm that underlies them, namely the necessity to combine the practical and theoretical training. The aspects that differentiate the training programs concern: the ratio between theoretical and practical training, the duration of the training program, national specific elements, educational and institutional policies.

The dimensions of professionalization that can be deduced out of this definition are:

- professionalization implies the description or elaboration of a “professional identity”, so as to outline a set of knowledge and skills structured in a "professional model" (professional standards), which can be assimilated systematically, on a scientific basis;
- professionalization also requires an appropriate effort to legitimize the teaching profession within the field of social activities and professions, with the help of this model of the teaching profession.

Professional standards, understood in the sense of certain quality and quantity criteria of teachers’ activity, used both to describe and assess the work of a teacher, to make an adequate selection of teaching staff in various situations, but also to improve initial and ongoing training programs for careers, are fundamental to attain these objectives.

A model of the teaching profession should include both *standardizable skills* (measurable, observable) and *unstandardizable skills* (having a high rate of subjectivity).

The quality of graduates is also generated by the quality of the training system and what it contributes with, capitalizes on and enhances from a personal perspective. Thus the selection process of potential future teachers becomes increasingly necessary.

Teacher training is officially recognized as part of higher education, equivalent to other academic specializations, having the ability to commit resources in order to achieve high-level scientific research.

This means that the training activities of teachers have to be raised to a higher level than they are today. An important step for this achievement is the reform of institutions responsible for organizing and conducting initial and ongoing training programs for teachers, respectively Teacher Training Departments (DPPD).

The approach to legitimize the teaching profession among social activities and professions is one of the essential dimensions of *professionalizing the teaching career*. In order to achieve this it is of paramount importance to develop a unified model of the teaching profession and the standards of the teaching profession.

In the opinion of Romanian specialists elaborating the standards, a *professional standard* has a complex structure, containing the following five elements:

- what activities are expected to be conducted by a teacher (specifying the types of activities required);

- What are the features that these activities should have in order to be able to assess that the quality is achieved at a level accepted by the society (description of activity);
- motivating the need to perform these actions (the reason of their enforcement);
- What are the criteria used to assess the quality of work required (observable and measurable behaviors that highlight the achievement of the required activities, at the socially acceptable quality level);
- how the required activities will be assessed (evaluation forms used).

Among the advantages of standardization there are included: providing the quality of initial and ongoing training; teacher certification, **career development opportunity**, creating an effective mechanism for internal and external evaluation of the results as well as of the teaching process, rewarding teachers' performance, cohesion between the various institutional segments involved in education. Moreover, among the difficulties related to the standardization process there can be emphasized: the tendency to generalize the functions of standards; the difficulty of determining the optimal point of the connection between what is constant and compulsory, on the one hand and dynamism and flexibility on the other hand; the difficulty of deriving the learning process characteristics, which depend on certain subtle and difficult to notice features (Buse, 2009).

Education specialists argue that after the development and subsequent use of the *teaching profession standards*, many *positive effects* are expected for the teaching staff and education in general:

- the creation of premises of granting equal opportunities to all children and young people in order to receive quality education from teachers trained according to exclusive professional standards;
- redefining the status of the teaching profession within the occupational system and on the labor market, by increasing the prestige and protection;
- reconsidering the content and form of initial and ongoing training of teachers, providing consistency throughout the system;
- the possibility to prepare a special category of teacher-evaluators, trained for assessing their colleagues' activity, in order to help them improve professionally;
- reconsidering school inspections and the way of preparing the inspection committees;
- reconsidering the evaluation process for granting professional certification ([full-time professional degree](#));
- reduce subjectivity and formalism in evaluating teachers' activity;
- clearer definition of roles and responsibilities in the educational system, which will result in improving the educational system in general;
- increasing teamwork, professional cooperation, in order to achieve common goals for improvement;
- facilitate a better collaboration between university specialists and trainers of preuniversity educational system;
- creating a common university-school training environment, an environment enabling professionalization.

The experience of other countries regarding professionalization prove to be positive, therefore it can be used as source of inspiration in reorganizing and restructuring the teaching profession in Romania, but also in reforming teacher training strategies, so as to modernize and improve the quality of Romanian education.

Summarizing the information obtained by consulting various sources on the Internet, the experience of teaching profession standardization in Australia, USA, Great Britain, Canada, Belgium, Switzerland, Central and Eastern European countries and Romania demonstrates the functionality of standards focused on the purpose, on the product, namely on the development of teaching skills.

We conclude that they surpassed the traditional stage, that of education and training focusing on content, according to the analyzed standards, which explicitly mentions the skills, attitudes, abilities and aptitudes that graduates will acquire.

There is no educational system that valorizes only the teachers' specialized scientific training or their ability to transmit the subject matter content to the students; but there are always indicated a series of other skills needed to support learning activities and students' personality training at various times of the educational process.

Thus, the professionalization of teaching career becomes possible in our country as well, as long as it is creating a model of the teaching profession, and teacher training is based on professional standards designed for different specialties teachers, novice teachers, experienced educators etc., so that all the work of educators can be subjected to training, conducted and assessed in a professional manner.

The teaching skills of a teacher are considered to be representative for his entire educational activity. Some of these skills are stated by the *teaching science* and can be standardized so that one can specifically describe the activities required, the teacher's expected work performance and the criteria according to which his work will be evaluated. On the other hand, there are also non-standardizable skills, stated by the *art of teaching*, according to the educator's individual aptitudes which can not be quantified in measurable performance, but make the educational activity authentic and contextually appropriate.

Reviewing the typology and characteristics of teaching activities, different teaching strategies and styles stands for an argument in favor of the claim that teachers' professional activity is complex and can be successfully achieved in different ways, the "perfect" version being impossible to identify. Therefore, the training process of future teachers must emphasize the intellectual flexibility of the students, self-knowledge and especially the attitude of professional involvement, of concern for personal and professional development. A major role in this process is played by the trainers, namely teachers and mentors from universities and vocational schools. The model they offer, their teaching styles, attitudes and values they transmit the teaching skills developed, are sources of inspiration for students-future teachers. The quality of the trainers depends heavily on the quality of the training process and the quality of the graduates that is the teachers to be.

According to legal provisions in force and in light of the incoming compatibility of Romanian education with the European one, the psycho-pedagogical training program for the teaching profession ends with a final evaluation, based on a *teaching portfolio*, consisting of a set of documents that synthetically reflects the level and quality of the skills acquired by graduates by attending the psycho-pedagogical study program.

2. Career features of the Romanian educational system

Career is commonly understood as an upward or progress movement of a person within a certain field of activity, in order to earn more money, more responsibility and more power and personal prestige. Prestige and social status are

important factors motivating the choice of university teaching career, even if they occur later on during teachers' lives.

Academic career continues to provide prestige and social recognition to those who choose it, but they no longer constitute sufficient grounds. For young university teachers nowadays they are more like a compensation for the years of financial difficulties that the system provides for debutants. Thus, with an average wage of 700 RON per month, young teachers barely afford to pay their rent and monthly bills.

However, their working hours reach up to 12 hours a day for teaching and research activity. This is because social status and prestige offered by academic career come too late, and require at least ten years of teaching, and especially research.

Behind every teaching hour with the students there are at least three hours of individual work. In addition, they also have to work on articles and scientific papers which are indispensable for career advancement opportunities.

The higher education staff consists of: *teaching staff, research staff, auxiliary teaching personnel and administrative staff.*

Higher education teaching staff consists of:

- [junior teaching assistants](#),
- Assistant professors,
- lecturers,
- readers,
- professors,
- adviser professor,
- associate teaching staff.

According to the type of the teaching positions, whether for public or private higher education, are set by the Status of Teachers, Law no. 128/1997.

Candidates for a teaching position must demonstrate through a diploma issued by the Ministry of Education and Research that they graduated a specialization according to the structure of the teaching line of the job they are applying for. Teaching positions can be occupied only by *Romanian citizens*. As an exception, these positions can also be filled by *foreign citizens*, as *associate teaching staff*, with a limited period employment contract, under the law and actual Regulation

The positions which the University can include to vacancy contest are: [junior teaching assistant](#), lecturer, reader, professor. There can be proposed for vacancy contest only those positions that have a *prospect of at least three years*, consisting of activities belonging to the same area. The positions of professor and reader can enter the competition only if they imply courses of at least one compulsory subject and do not imply optional subjects.

Filling an immediately superior position is done according to the Law regarding the Status of Teachers. Seniority exemptions are given in accordance with the Charter of the University by the University Senate.

The vacancy contest proposals for junior teaching assistant, assistant and lecturer are made by the head of department and approved by the Faculty Council. The vacancy contest proposals for reader and professor are made by the head of department, supported by the Faculty Board and approved by a committee of the College of Senate composed of the rector, vice-rectors and Scientific Secretary of the Senate.

The decision to propose these teaching positions for vacancy contest will be made taking into account the opportunity criteria:

- the need for that specific position's existence in the job title list of the department and its contest occupancy;
- the structure of the department and faculty according to teaching positions;
- the financial status of the faculty;
- the prospects that the position can be filled by a person of high professional competence.

The University of Craiova is one of the institutions with long tradition of the higher education and research activity in Romania. Founded in the mid-twentieth century, by Law no. 138 of 25 April 1947, the University of Craiova has won a place of honor in the national university educational system and a distinct role within academic collaborative relationships with other universities in Europe.

The University of Craiova is today one of the largest, most complex and diversely structured universities in Romania, which is firmly and dynamically committed to education and performance, in consonance with the desiderata of the EU integration process.

The faculties and departments are the basic units of higher education institutions and express the characteristics of a university community consisting of teaching staff, research staff, students, and auxiliary teaching personnel, structured in departments and chairs.

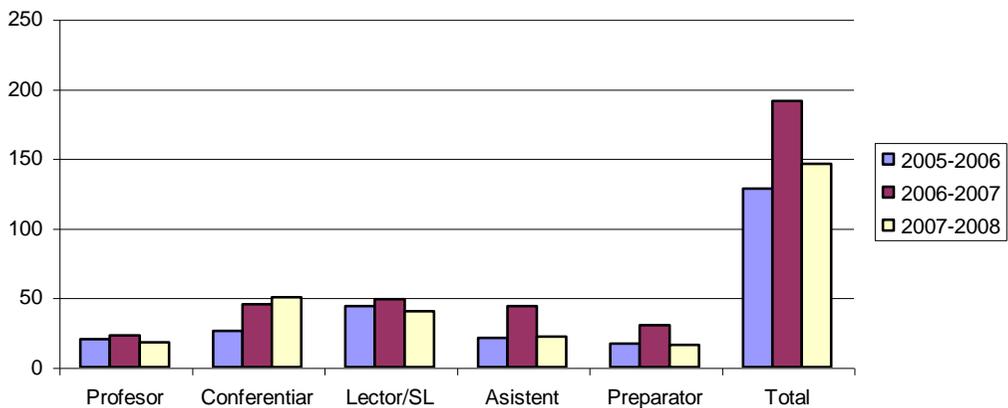


Figure 1. Evolution of positions for vacancy contest during University academic years 2005-2008

In the academic year 2005/2006 there were proposed for vacancy contest a number of 128 positions, the distribution for each office being stated in the table above. Out of these, 72 positions were validated by the University Senate, and 46 were validated by the Senate and passed to C.N.A.T.D.C.U. for further validation. Out of the 46 positions C.N.A.T.D.C.U. did not validate the contest, therefore did not approve three professor titles and two reader titles.

Out of the total number of positions proposed for vacancy contest there were validated according to law a number of 123 positions, which is 96,09%.

In the academic year 2006/2007 there were 191 positions proposed for vacancy contest, the distribution for each office being stated in the table above. Out of these, for the 123 positions validated by the Senate there were 129 candidates, six of them being

rejected, one running for assistant professor and five for [junior teaching assistant](#). 68 positions, 23 for professor and 45 for reader were validated by the Senate and passed on to C.N.A.T.D.C.U. for further validation. Out of the 68 positions C.N.A.T.D.C.U. did not validate the vacancy contest, consequently it did not approve five professor titles and eight reader titles.

Out of the total number of positions proposed for vacancy contest there were validated according to law a number of 178 positions, which is 93,19%.

In the academic year 2007/2008 there were 146 positions proposed for vacancy contest, the distribution for each office being stated in the table above. Out of these, for the 78 positions validated by the Senate, there were 82 candidates, five of them being rejected, two for lecturer, one for assistant professor and two for junior teaching assistant. 68 positions, 18 for professor and 50 for reader, were validated by the Senate and passed on to the C.N.A.T.D.C.U. for further validation. Out of the 68 positions C.N.A.T.D.C.U. did not validate the vacancy contest, therefore did not approve two professor titles and two reader titles.

Out of the total number of positions proposed for vacancy contest there were validated according to law a number of 142 positions, which is 97,26%.

Starting from one of the meanings of career, naming the facts of being perceived as an ascent within an organization, the results are:

Table 1. Evolution of positions for vacancy contest during University academic years 2000-2007

Teaching position	Total of employees	Date of promotion to the position		
		Before 2000	Between 2000-2003	Between 2004-2007
Lecturer	214	17	31	101
Assistant/ Lecturer	308	31	45	122

It follows that out of a total of 214 teachers with the title of reader, employed at the University of Craiova on 01.10.2009, 7% have been filling this position for more than ten years, which raises a series of questions about why there were no changes in their teaching career.

Moreover, out of a total of 308 teachers with the title of lecturer that the University of Craiova employed on 01.10.2009, 10% have been filling this position for over ten years.

The question is whether the managerial culture of universities in general, through all its norms, values and behaviors that determine the specific nature of the behaviors and procedures approved by the managerial group and imposed to the employees as being fair, efficient and desirable, has incentive effects on all employees?

As Professor Andrei Marga (1996) put it, "the internal management of the university visibly determines the capacity to solve problems and, ultimately, the performance of a university".

The reference values that university managers refer to when making decisions, or the norms and rules they adopt in order to complement or develop the legal framework to meet the objectives aimed at are like a hard core of the organizational culture, leading to the development and performance of an institution.

Unlike the Romanian higher education, the French higher education implies fewer teaching positions and the access to them is made differently.

Therefore, if in Romania a person who obtains a university degree (professor, reader, lecturer, assistant professor or junior teaching assistant) is sure of his position by being hired at the university where he passed the vacancy contest on an indefinite period (except for the lecturer without a PhD title), in the French educational system obtaining the title is not equivalent to the permanent job.

In this case the French deal with the relationship between professors and readers, which was reached 35% professors and 65% readers in 2009, and the short-term goal is to reach 40% professors and 60% readers.

With the Romanian higher education, one of the elements providing quality is the weight of assistant professors and junior teaching assistants in the total number of positions.

Conclusions

The review of the paradigms underlying the possible ways to approach the training process for the teaching career has enabled us to identify the theoretical and practical meanings of the changes which the Romanian educators are currently living.

The main problem with the teaching staff in Romania is the social status deficit, translated by the low level of remuneration, by the underestimation of the teaching profession and by the lack of attractiveness of the teaching career among the youths and not only.

A second major problem is the professionalization deficit. Currently, except for pre-school and primary educational systems, the status of the teaching profession is occupational not professional: for graduates of higher education being a teacher is just one among other possible occupations.

Informational deficit is the third major problem the teaching staff is faced with.

Communication and participation deficit is the fourth main problem of the Romanian teaching staff, determined by the persistence of the "rational-bureaucratic" organization of the educational system preventing the transparency and fluidity of communication flows: information is transmitted mainly upward, decision mainly downward, and "lateral" and "diagonal" communication are discouraged. However, the bureaucratic centralism is repulsive by its very nature against consulting and participatory management styles.

As a result, decisions are taken at the top of the hierarchy and, even if they are natural, their application is formal or faces resistance regarding their implementation by those who have not participated to their establishment in any way. Communication and participation are also hindered by the lack of an infrastructure necessary for a modern and efficient communication and by financial difficulties.

Career analysis starts by dividing all the job positions into groups, the criterion being the kinship of occupations (for example, in the case of a television there are groups of editorial, production, technical, administrative, marketing stations etc.). Within each group there can be made descriptions in terms of skills, thus making a difference between the positions and creating a scale (for example, the higher education teaching staff: Junior teaching assistant – Assistant Professor - Lecturer - Reader - Professor).

Sometimes a group can be divided in smaller and more homogeneous groups – a breakdown useful especially when career development can be achieved not only upwards, but also by moving horizontally.

The information obtained in this way can be used for career planning and to determine the attributes and skills at each level.

Moreover, such an analysis can be used to develop salary structures according to different job groups.

Career analysis can not be done without job analysis, which is one of the most important activities of human resource management.

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EMPLOYEES INVOLVEMENT IN DECISION MAKING: THE CASE OF THE ROMANIAN SMES*

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Abstract: In the specialized literature it is considered that group decisions, taken after consultations and negotiations, hold the weight in the large economic organizations of the present. In the first part, the present paper attempts to study, from a theoretical point of view, if this idea is an accurate observation of a real state of affairs (in this respect, it is analyzed, from a personal point of view, some of the classic approaches on group decision and, in terms of this analysis, decision-making processes from the current organizations shall be put in a new light). In the second part of the paper, we intend to study to what extent the conclusions can apply to the sector of the small and medium enterprises of Romania and to what extent the employees of the Romanian SMEs are involved in the decision-making processes.

JEL classification: L26, D81

Key words: decision making, group decision, entrepreneur, entrepreneurial teams

1. Introduction

Modern organizations no longer resemble the traditional organization, but this is already a truism. There are many elements of differentiation, but in the present paper we retain the following: “The classic company used to own or at least control anything that was believed to be its business. There were suppliers and distributors, but they were ‘outsiders’. The company based on command and control as it had its own properties. This model still represents the traditional structure of companies, but more frequently command and control are replaced by or combined with all kinds of relationships: alliances, joint venture, partnership, participating minority, know-how and marketing agreements – in this type of relationships no one controls or commands. This type of relationships has to be based on the mutual understanding of objectives, policies and strategies and on team spirit and persuasion” (Drucker, 2000, p. 13). “Organizational symbols have recently been directed towards networks and ‘cobwebs’ having as distinguishing marks operational and ad-hoc teams, horizontal processes or virtual systems, which are borderless and chaotic.”(Ulrich, 2000, p. 144)

Under the circumstances of these mutations, group decision-making becomes a necessity and an adapted favorable climate for this type of decisions represents an extremely important element for the current organization. Making a group decision

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does not necessarily mean that the decision is a better one, but we can discuss some prerequisites which are obvious in this respect. If a person makes a decision it is considered that the person acted autocratically, that he/she doesn't take into account others interests or opinions and implements the decision by coercion but by consensus. In this case, one can question the legitimacy of the decision. Obviously, when the decision was taken and accepted by the group it is considered to have a general legitimacy even if a person might not agree with it. It was important that the person's opinion had been asked for and that the person directly participated in the decision-making process. The acceptability of a group decision is helpful for obtaining the decision implementation. If those who decide really understood the meaning of the decision and they considered it adequate, it was expected that they would implement it correspondingly. In other words, making a group decision means to draw on more experiences and skills than what only one person can possess. Also, the group will draft more variants of a decision and propose many modalities of implementation. Group decision also encourages assuming risks. By definition, group decisions suppose a certain risk degree and uncertainty. Although experts cannot answer very trenchantly, it seems that groups tend to be more audacious than individuals. D. G. Myers and H. Lamm (quoted by Stanciu, Ionescu, 2005, p.215) assert, on the basis of the their own studies and other 300 reviewed studies, that group discussions lead to decisions which are not necessarily more dangerous but more extreme than individual decisions; if the members of a group tend to adopt initially a riskful solution, then the group will adopt a much more riskful solution for a particular situation; if the members of a group are initially cautious, then the group will be more cautious. Eventually, a group decision has positive valences in terms of personal satisfaction, but it may become a negative phenomenon in terms of stress. Within the group, people have satisfactions as they compare notes, they communicate much more and when they have good ideas they have the chance to raise their status and this may give them self-confidence.

According to Keen (1981) 'the model of only one person deciding, who walks fast on the halls of the company, late in the night, trying to make a decision, it is a very rare case. In most public or private organizations of North America, Europe or Japan, decisions are taken after many consultations'.

The above situation, with some small differences, is a reality present in the large organizations. Is this situation present (frequently) in the small and medium enterprises which numerically dominate the economies nowadays? The entrepreneurship has been for a long time materialized in only one person, the heroic and solitary entrepreneur. This image changed in the past few years. Under the influence of pragmatic evolutions, entrepreneurial teams became a constant presence associated with successful projects. Under these circumstances, a statement as the following doesn't surprise anymore: 'The entrepreneur in entrepreneurship is more likely to be plural, rather than singular'(Gartner et al., 1994). Nevertheless, many people regard it with circumspection and reticence.

2. Group decision-making – a reinterpretation of classic approaches

Although the group decision-making is considered to be present everywhere within the modern organization, in our opinion things have to be regarded with circumspection. The hypothesis that we will try to argue within this paper is the following: actually the group decision-making is not very frequent yet in the current (small or large) organization, despite what is written in the specialized literature.

Firstly, we will try to define, in a personal manner, the group decision, without claiming ‘the absolute truth’ or ‘the whole truth’. It is not an attempt of conceptualization, but rather an approach aimed at identifying the conditions of existence of the group decision-making.

In the specialized literature there is a plethora of definitions of group decision-making. Very often (especially in the Romanian specialized literature), the group decision-making is considered, in a simplistic manner, a decision-making process that involves several people, without transcending this „zone”. In my opinion, the correct name for this process is multi-personal decision not group decision or participatory decision.

I believe that the attempt to give an exact definition has to start from the aims pursued by the group. Firstly, by group processes it is intended to obtain a good decision which is a result of solid foundation based on the interconnection, activation and harmonization of many individuals’ experiences, skills and knowledge who are the stakeholders of a decisional situation. Secondly, the group decision aims at obtaining an intense engagement from the part of those involved in the implementation of the decision thus becoming a motivation tool in accordance with the present socio-political trend namely the fall into abeyance of representative democracy and the introduction of the participative democracy.

Before defining the decision-making process of a real group, we have to mention the fact that in the specialized literature the Simonian model regarding the structuring of the decisional process became a classic model. In the present analysis we will focus on the stage of choice deployed by a group (without excluding the possibility that certain stages take place outside the group).

Taking into account the previous mentions, in order to discuss about a real group decision/making, I believe that some conditions are imperative: group management/leadership should facilitate and encourage the involvement of each member in the decisional process; conditions for an intensive process of communication within the group should be created in order to prevent conformism and the effect of social laziness and by which information, knowledge and experiences would be shared; adopt a practical modality of decision which would lead to a final solution to which each member brought his contribution – the only modality matching the description is consensus; all members of the group should be hold liable for the decision.

In what follows we will make a short analysis of each of previous conditions. For the first condition we point out only a few items. I consider that the leit-motive for this condition is the assertion of J. Naisbitt (1989, p. 273) according to which: “The new leader is one who facilitates, not gives orders”. In accordance with this, Finch (1977) pointed out that the role of a formal leader or manager of a decisional group is rather the role of a facilitator, counselor or negotiator than the role of a final arbiter.

In fact, over time, the leader’s behavior has been considered extremely important for group decision-making and has been frequently analyzed in the specialized literature.

Thus, R. Tannenbaum and WH Schmidt (1958), in an article already classic, have treated the issue of the differentiated approach to the decision-making process of a group based on the position and the involvement of the group leader in decisional process. Thus, they distinguish between the following styles of decision adoption:

- The manger decides and announces the decision – the manager identifies the problem, analyzes different possibilities of solving the problem and chooses the

solution which will be used to solve the problem, asks his subordinate to implement the chosen solution. The manager might not use coercive modalities, but his subordinates do not participate directly in the decisional process.

- The manager decides and then 'sells' the decision to the group – he identifies the problem and decides independently. Nevertheless, instead of simply announcing the decision taken in order to be implemented, he tries to persuade his employees to accept the decision.

In these two cases, obviously, we do not discuss about a group decision.

- The manager presents the decision with background ideas and invites questions – the manager decides and tries to persuade his subordinators to accept the decision. Nevertheless, a supplementary step is made because the subordinators are asked to put questions about the decision. The involvement of the subordinators is not present in the decisional process. By this style it is aimed at overcoming some possible obstacles during the implementation process.

- The manager suggests a provisional decision and invites discussion about it – the manager allows his subordinates to have a certain role in the decisional process, but he is responsible for the identification and the diagnostic of the problem. The manager makes a decision which can be modified on the basis of some suggestions of the employees. The final decision is taken by the manager. If we are allowed to express it, in this case we can discuss about a group decision at a low level.

- The manager presents the problem or situation, get suggestions, then decides – this is the first management activity described up to now that allows subordinates to bring solutions for the problem before the manager choose the solution. Nevertheless, the manager is the one who identifies the problem.

- The manager explains the situation or problem defines the parameters and asks team to decide on the solution – within this type of management behavior, the manager firstly identifies the problem and sets the limits within which the decision has to be taken. Then the manager enters a partnership with his subordinates in order to reach to the adequate decision.

- The manager allows team to develop options and decide on the action, within the manager's received limit – in this case the manager becomes a member with the same rights as the group. The group identifies and evaluates the problem, drafts possible solutions and chooses a solution to be implemented.

In the last two cases we can discuss, apparently, about a real group decision-making (according to the definition that we previously proposed). In fact, we will observe that according to the manner in which the group decides, there are some nuances.

Another important leadership theory focused on establishing the employees' participation degree in the decisional process was the Vroom-Yetton-Jago leadership model created on the basis of two important prerequisites: organization's decisions have to be of good quality (their impact on the results has to be a favorable one); subordinates have to accept and engage in the decisions taken by the organization.

The model suggests that there are five different decision styles or modalities that leaders can use: the leader solves the problem along using information that is readily available to him/her; the leader obtains additional information from group members, then makes decision alone; the leader shares problem with group members individually, and asks for information and evaluation (group members do not meet collectively, and leader makes decision alone); the leader shares problem with group

members collectively, but makes decision alone; the leader meets with group to discuss situation (leader focuses and directs discussion, but does not impose will; group makes final decision).

After analyzing these models we can draw the conclusion that we can discuss, as in the case of leadership styles, about a continuation of group decision situations and about, if we are allowed to say it, decisions which are more or less group decisions, according to the degree of involvement of the leader and of the group members.

As regards the second condition, we will discuss about the most difficult aspect namely information and knowledge sharing which represents an important challenge for any group decisional process. In practice such challenge is difficult to be achieved (Tran, 2004). In most cases group members do not know what the other members know or not. Also, in most cases, debates focus around the knowledge, the information and joint experiences (Stasser, Titus, 1985), which are not important for the quality of the decision, inducing the danger of conformism (Schulz-Hardt et.al., 2000). Stasser and Titus (1987) observed that the unshared information has a greater chance to be actively debate within the group as long as the total amount of information at disposal of the group is not very great. In contrast, the larger the group, the risk increases (Stasser et al., 1989). In this case, it is crucial the leader's ability to encourage members to express their opinions and to argue them, to encourage factious opinions and to accept the reasoned combat of these opinions.

In what follows, we will present the exact modalities by which the group decides, because in our opinion they are very important for classifying a decision as being a group decision. Hence, there are many ways in which a group decides. In general, there are six factors that have to be taken into account (Burdus et al., 2003, p.545): decision type (simple, complex, which affects the members of the group or not); the time and the available resources; the evolution in time of the group (they work well together or they do not know each other); the particularity of the assignment which determines this collaboration (simple or complex debates); the climate type that group members wish to establish (independence, authority); the situation type in which group members work (bureaucratic or alert rhythm).

Schein (1969) describes the following ways that groups make decisions: decision by formal authority or self-authorization; decision by lack of response; decision by a minority; decision by majority rule; decision by consensus; decision by unanimous consent

.The decision by lack of answer occurs when somebody within the group proposes a solution and nobody intervenes. E. Schein considers that the lack of answer can be interpreted as the decision of the group to not support that solution and the one who proposed it or, on the contrary, as a tacit acceptance.

The decision by formal authority or self-authorization occurs within groups that have a structure which obviously indicates that the leader will make the decision. According to this method, the appointed leader schedules the meeting with the members of the group, presents the problem, and listens to the opinions of the participants and only when he is sure of the decision content announces it to the group. In our opinion this modality should not be included in the field of the group decision.

The decision by a minority occurs in the decisional situation in which the leader (the manager) calls only a minority of the group in order to adopt a decision (less than 50% of the members) under a commission or a committee form. These members have certain representativeness or they have power within the group.

The decision by majority rule is a method which consists of discussing some solutions as long as it is necessary to obtain the consent of at least 51% of the group members. Though it seems a correct solution, in the case of this solution may appear a series of problems: firstly, the minority members may consider that the debate of the decision was short and they did not have time to express their point of view and for this reason they might feel marginalized.

Consensus is defined as a collective opinion resulting after the discussions that took place between the members of a group who work together under the conditions that allow an open communication, so that each member feel that he has the possibility to influence the decision. When a decision is taken as a result of the consensus all members of the group understand the decision and are ready to support it. Frequently, it is considered that obtaining consensus takes a long time. In fact, a broader approach should be made: consensus means time spent for a decision, but one can save time and other resources, later, when the decision will “sell” and will be implemented.

In our opinion, we can talk about a real group decision-making only when consensus is used as a modality of making a decision, but not without having some reservations. In order to clarify these reservations we have to make the distinction between consensus and compromise. In this respect, we will present P. Oberlé and J. Beauvois (1995) points of view that consider that as regards consensus, it should be regarded as a result of confrontation by which different positions are balanced. This doesn't suppose the suppression of different points of view but a negotiation process between relatively equal parties. Consensus is a stable and solid agreement which usually doesn't lead to the accumulation of latent tensions.

Compromise is an agreement obtained by pressure and manipulation (this situation can be found sometimes in the case of unanimities). Compromise takes place mostly when within a group there are persons with a certain power by virtue of which they succeed to impose their opinions. The word power has to be considered with a broader meaning not only in the sense of hierarchical authority, but also in the terms of information, knowledge and skills held by someone, one's own communication style, and the socio-material situation of each individual outside the organizational framework. Though, compromise is a situation of unstable balance because it usually generates hidden tensions.

Finally, we will discuss briefly about the distribution of responsibility between the members of the decisional group. I believe that the unique responsibility of the leader for a certain decision adopted at the level of the group is an outdated issue. Moving from the hierarchical organization managed according to Taylorist principles to a flattened or a network type organization involves mutations in the way responsibility is approached within the organization. Responsibility does not disappear in this type of organization, it does not collectivized, it remains individual and it has to be regarded as an assumed role. Responsibility is internalized so that it should allow self-organization and self-management (Fukuyama, 2003, p.238).

F. Fukuyama explains this new approach by a metaphor, the famous power brake present at each working point on the Takaoko conveyer line of Toyota, which allows each worker to stop the whole conveyer line if he observes any irregularity in the manufacturing process. By this any worker can sabotage the efforts of the entire group, or on the contrary can prevent a disaster.

In conclusion, we believe that the four conditions are rarely simultaneously and totally fulfilled, and this makes us repeat our hypothesis that the group decision-making is purely theoretical.

3. Involvement Of The Romanian Smes Employees In The Decision-Making

In the Romanian SMEs group decision/making (not only in its narrow meaning as we previously defined but also with a broader meaning – the multi-personal decision) is not very frequent. In what follows we will try to argue as solidly as possible this fact by analyzing the discourses of some successful Romanian entrepreneurs. For this reason we will focus on an ample aspect, i.e. the involvement of the employees in the decisional processes which also includes group decision.

In the majority of the papers on the SMEs, the manager is the central element in the management processes, a decisional quasifactotum. The management style of SMEs is usually considered as very centralized, sometimes exclusively detained by only one person, the owner-manager. Torres (1999) uses in this sense the term “ego firm”, in order to define the small business. Thus, Torres proposes three characteristics for the SMEs:

- “The butterfly effect” supposes that any apparently minor problem can lead to a series of consequences in the inside of a SME because of its economic vulnerability. W. Torres quotes the following situations that might affect the existence of the firm: a new competitor enters the market; the bankruptcy of a supplier, the refuse of a bank loan. Also, the actual management is frequently confronted with emergency situations which can turn into real crisis.

- “micro-cosmos effect” supposes that the manager be concerned with short-term problems, strictly referring to micro-environment of the firm.

- “egocentrism effect” highlights the hypertrophy of the manager’s ego. As the manager is very concerned about himself, he cannot authorize (correctly) decision taking.

A vicious circle bounds these three characteristics: “the egocentrism effect” and the “micro-cosmos” one alter the lucidity of the owner-manager. This increases the vulnerability of the company and set off/ accentuates the “butterfly effect” thus determining the owner-manager to involve in the company functioning (increasing the “egocentrism effect”). By increasing the work volume, the owner-manager obviously takes more decisions (which can lead to an “effect of micro-cosmos”).

Nevertheless, there are authors (Kalika, 1984) who consider that the degree of centralization varies from one company to another being influenced by the company largeness, by the manager’s personality and by the employees’ value.

Another idea (a preconception? an outdated idea?) very present in most papers on SMEs mentions that the manager is like a “solitary wolf” (he sees what the others cannot see, he does what the others cannot do) and, more than that, the entrepreneurial action cannot be performed as long as it is individual.

Hatchuel (2000) argues that, in fact, in order to create a company, the manager is not and could not be by himself. In this direction, in the recent years it has been developed a reach literature talking about equipreneurship, team entrepreneurship, entrepreneurial teams (see Ben Hafaïedh, 2006).

In what follows, taking into account these elements, which can serve as the framework for analyzing the existence/development of the group decisional processes

in a SME, and also the theoretical aspects exposed in the first part of the paper, we will try to identify some aspects regarding the use of group decisions in the Romanian SMEs (rather prerequisites and barriers).

The first direction of study aims at drafting the characterization of the Romanian owner-manager, and identifying those qualities which could offer us some clues in terms of his position towards the group decisional process.

Silviu Hotăran, ex-CEO of Microsoft Romania, presently general manager of GKI Semper Human makes the following statements: "I believe that lack of trust is a 'chronic disease' in the entire Romanian society, individualism, the inability to delegate and to work in team is, unfortunately, the elements of the management culture in our country. In this context, many Romanian companies suffer from the syndrome 'one man show', where the control is held by only one person who controls the access to information instead of delegating and limits the company growth. This syndrome appears firstly at entrepreneurs, those who started the business by themselves. In their behavior one can observe the lack of trust. In the case of the one who had courage and invested in the business (the entrepreneur), lack of trust can increase especially in times of 'storm'" (www.profesiionline.ro).

The same entrepreneur adds: "Beyond the syndrome 'one man show' which characterizes the Romanian entrepreneur who started doing business in the '90 and who has not courage to delegate, Romanian managers do not know how to communicate and they forget that the most important aspect of communication is listening. We do not know how to motivate people and to self-motivate, we focus on what does not function and we forget to appreciate the things done well. We do not know to give and receive feedback or to say when problems occur and we postpone them. Someone working at Microsoft said 'problems do not age in a beautiful way'. We do not know how to trust someone. These are not specific only to Romanian managers, but in Romania they are exaggerated." (www.profesiionline.ro)

Unfortunately, this point of view is not singular. "I believe that 99% of the entrepreneurs and managers of Romania do not have a clear system of delegation, not because they were not capable but because they don not have the skills levels established for the company. We are in a worse situation than our neighbors. Unlike Romania, in the neighbor countries there is a procedure and standardization culture which force people to establish tasks, responsibilities, objectives and competency limits", considers Petre Nicolae, general manager of CBC Romania, consultancy and strategic management company (www.businessstandard.ro).

"The pathological distrust (everybody steals from me) and the impression that they know everything better than anyone determine the managers to become the first obstacle for their business", says Octavian Radu, founder and president of the RTC group (www.businessstandard.ro).

Returning to the theoretical elements, it is considered that, for the majority of the SMEs, the first years of functioning require a micro-management and manager's total involvement in the current problems even insignificant ones (Mazzarol, 2003). In the first years, companies are dependent of their owner-manager in order to survive. As far as the business grows, the owner-manager must build a team management with whom to consult and learn to delegate. Formicheli (1997) notifies the danger of nano-management and the risk that the owner cannot give up the specific (and necessary) management style in the first stages of a small business.

We are also interested in analyzing the aspect of the Romanian employee and in explaining the quasi-absence of group decisions within the Romanian SMEs. The psychologist Ion Bucur makes a tough description of this aspect: “The more distant from a leadership position the Romanian employee is, the lesser they identify with the objectives of the organization. The lower he is in the company hierarchy, the lower is his motivation.” The same expert, after realizing a study about motivation, in a number of sales companies, identified the following elements: the motivation of avoiding the failure prevails – 80%; adaptive, conservative persons prevail – 80%; good executers prevail – 95%; pragmatic, short-term oriented person prevail – 80%; defensive attitudes prevail – 70%; the adaptation motivation prevails despite the motivation regarding change motivation – 75% (www.wall-street.ro).

Such attitudes might have older causes (deep-rooted mentalities) but the behavior of the owner-manager may also be a tripping factor.

In what follows we will present another relevant example regarding Romanian entrepreneur’s mentality and the manner in which they understand to involve their employees in the decisional process.

Radu Timis is the owner of Cristim (an important player on the Romanian market of cold meats), a business of 120 million and over 2000 employees (is not anymore a small or medium business, but elements that will be presented overlap up to the theoretical elements presented by Torres). In 2005 he separated from the company management returning in 2009 (“economic recession forced us to open our eyes”). This interval was characterized by repeated changes at the management level. The reasons of this fact are presented below, in the words of the entrepreneur:

“Because they did not adapt to the vision, the ideas, the rhythm and the CrisTim company style, we weren’t able to remain together. They did not believe in my vision of a 40% growth annually. That is why, at present we work only with the second echelon.” (www.zf.ro)

“I consider that it is still dangerous that people in a company wait for a decision and do not action in this respect. And here I refer to all levels. For four years any decision had had to reach the CEO who analyzed it and decide whether was good or bad. Nothing was delegated. Actually, I gave more freedom than the freedom given after I left the executive. This my first reproach: lack of delegation. People got used to that and now I have to break them of this habit. I say to them: “Is it good what you want to do? If you think it is, go for it. We will analyze the results after month and we will see whether was good or not.” (<http://moneyexpress.money.ro>)

“A fantastic thing happened: my ‘third eye’ opened. Now, I see all things ‘just in time’. For any problem which may occur, I have the solution immediately; I know what I have to do. I am the one who knows best the business I run. A manager is nothing but an employee who risks losing his bonus if he makes the wrong decision, while I risk to lose the business and to affect, in this way, the jobs of 2000 people.” (<http://moneyexpress.money.ro>)

Are we talking again about a phenomenon specific to Romania? It may be exaggerated but not specific. The specialized literature is our witness in this respect. For the majority of the first-generation firms a centralized decisional process, dominated by the founder is specific (Alderson 2009). The second generation of entrepreneurs may become more collaborative under the influence of the family pressure and conflicts, but also because of the lack of experience and even competence, or because of the fear of failure.

In what follows we will try to point out some elements on information sharing within SMEs. The small dimension of possible decisional groups which can be formed in a SME might be a favorable factor. The same might be the informal and non-bureaucratic framework of the communication. But there are also some inhibitors (probably with a stronger influence in most cases). Sharing information is, theoretically, stimulated by the leader and by the organization's culture. The owner-manager, at least at the beginning of a business, is very suspicious and accepts with difficulty to share information about his business (Balachandra, Briggs, 2009). At his turn, the organizational culture of the company is a reflection of the personality and wishes of the manager. As long as this one does not agree with sharing information, the organizational culture is not a favorable factor.

Regarding these issues we have to make another mention. Under the pressure of harmonizing the *acquis communautaire* (the framework Directive 2000/14/EC), was adopted Law NO 467/2006 regarding the establishment of a general framework for consulting employees (the text of the law makes references also to informing not only consulting). The law applies to companies with more than 20 employees (thus to a number of SMEs). Among the aims of an informing and consulting process should be included the aim that employees have a greater influence on the decisional process (Wilkinson, 2007). Unfortunately, we are very afraid of talking about "a new form without substance", as long as the necessity to inform and consult employees is not internalized by the manager.

We will finish this discussion by reproducing some ideas from the personal blog of Radu Georgescu (the owner of GECAD, founder of RAV, sold by Microsoft), probably not by chance the Romanian entrepreneur whose success was validated internationally also:

"I know that it might sound odd, but I know that many friends of mine ask the same question: trust their own team or trust a stranger? Does the team have no hidden interests? Does the team think subjectively? May the stranger bring an idea out of box? Yes – I say – but for this we have some choices that we can deal with separately, correspondingly weighted: for the subjectivism of those inside we can use audits and for 'airy' perspectives we can use different consultants. But all their opinions have to be weighted – as I said earlier- by the advisory team.

In conclusion, I highlight that in business especially in the entrepreneurial zone people can take wrong decisions. But it is well that they be taken by the team responsible for the phenomenon, not by someone for outside it. The role of the external consultant exists; it is important but limited and purely informative. I always strongly believed that those who work with me support me 100% and statistically speaking it was proved that I was right to think like that." (www.radugeorgescu.ro)

4. Conclusions

Although group decision-making valences are obvious (and largely perceived correctly by all participants in the economic life), they seem to "penetrate" with difficulty to the Romanian organizations and especially in small and medium enterprises. Attitudes are to blame, both owners-managers and employees, the negative experiences of each of the two categories in relation to other. The short time passed from the revolution is also to be blamed – when the first private initiatives and the early entrepreneurial culture appeared. Any solutions? A (small) part of the Romanian people with small business will become aware (or have already become aware) that they will

not be successful from the position of a 'one man show'. A safer solution (implemented on the long term) is the training of the future generations of entrepreneurs and employees by using different (new) models to which should add the formation of original healthy entrepreneurial cultures.

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A STUDY ON CONTROL AFFINE SYSTEMS WITH POSITIVE HOMOGENEOUS COST AND NO CONSTANT RANK OF DISTRIBUTION*

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Abstract: The paper deals with the study of a drift less control affine system with positive homogeneous cost of Randers type in the case of bracket generating distribution of no constant rank. We use the Pontryagin Maximum Principle in order to find the general solution. In the particular case of quadratic cost the optimal trajectories of the distributional system are the geodesics of the so called sub-Riemannian geometry.

JEL classification: C02, C6

Key words: drift less control affine system, positive homogeneous cost, Pontryagin maximum principle.

1. Introduction

Control theory is splitting in two major branches: the first is the control theory of problems described by partial differential equations where the objective functionals are mostly quadratic forms, and the second is the control theory of problems described by the parameter dependent ordinary differential equations. In this last case it is more frequent to deal with non-linear systems and non-quadratic objective functional. The mathematical models from the optimal control theory cover also the economic growth in both open and closed economies, exploitation of (non-) renewable resources, pollution control, behavior of firms or differential games [2], [7].

It is well-known that the solution of a control affine system is provided by Pontryagin's Maximum Principle: that is, the curve $c(t)=(x(t),u(t))$ is an optimal trajectory if there exists a lifting of $x(t)$ to the dual space $(x(t),p(t))$ satisfying Hamilton's equations (see for instance [1]).

In this paper we study a drift less control affine system (distributional system) with positive homogeneous cost, such that the rank of distribution is not constant. The distribution is bracket generating (i.e. the vector fields of distribution together with the iterated Lie brackets span the entire tangent bundle) and from Chow's theorem the system is controllable, that is the system can be brought from any state a to any other state b .

We find the explicit solution of the problem, using the Hamilton equations on dual space and a convenient change of variables. In the particular case of quadratic cost,

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the optimal trajectories of our system are the geodesics in the framework of sub-Riemannian geometry [3], [5], [6].

2. Control affine systems

Let us consider the drift less control affine system (called also distributional system) in the space R^n on the form

$$\dot{X}(t) = \sum_{i=1}^m u^i(t) X_i(x(t)) \tag{1}$$

with $X_i, i = 1, \dots, m$ vector fields in R^n and the controls $u = (u_1, u_2, \dots, u_m)$ take values in an open subset $\Omega \subset R^n$. The vector fields X_i generate a nonholonomic (nonintegrable) distribution $D \subset R^n$ such that the rank of D is not necessarily constant.

Let x_0 and x_1 be two points of R^n . An optimal control problem consists of finding those trajectories of the distributional system which connect x_0 and x_1 , while minimizing the cost

$$\min_{u(\cdot)} \int F(x(t), u(t)) dt, \tag{2}$$

where F is a positive homogeneous cost on D .

The controlled paths are obtained by integrating the system (1). If D is assumed to be bracket generating (i.e. the vector fields of D and iterated Lie brackets span the entire R^n), by a well-known theorem of Chow the system (1) is controllable, that is for any two points x_0 and x_1 there exists an optimal curve which connects these points.

We consider the Lagrangian function of the form $L = \frac{1}{2} F^2$ and it results that is 2-homogeneous positive function. Necessary conditions for a trajectory to be an extreme are given by Pontryagin Maximum Principle. The Hamiltonian reads as

$$H(x, p, u) = \langle p, \dot{X} \rangle - L(x, u), \tag{3}$$

where p is the momentum variable on the dual space. The maximization conditions with respect to the control variables u , namely

$$H(x(t), p(t), u(t)) = \max_v H(x(t), p(t), v)$$

leads to the equations

$$\frac{\partial H(x, p, u)}{\partial u} = 0, \tag{4}$$

and the extreme trajectories satisfy the Hamilton's equations

$$\dot{x} = \frac{\partial H}{\partial p}, \quad \dot{p} = -\frac{\partial H}{\partial x}. \tag{5}$$

If the equations (4) permit us to find in a unique way u as a smooth function of x and p , then we can write the Hamiltonian system (5) without any dependence on the control. This nice situation happens always for distributional systems with quadratic cost

$$F = \sqrt{\sum_{i=1}^m u_i^2(t)}.$$

If the cost is not quadratic, then we cannot guarantee that the Hamiltonian can be calculated without dependence on the control. However, there exist several situations when the Hamiltonian still be found.

3. Application

Let us consider in the three dimensional space R^3 the drift less control affine system

$$\dot{X}(t) = u^1 X_1 + u^2 X_2 + u^3 X_3 \quad (6)$$

with

$$X_1 = \begin{pmatrix} 1 \\ 0 \\ 0 \end{pmatrix}, X_2 = \begin{pmatrix} 0 \\ x \\ 0 \end{pmatrix}, X_3 = \begin{pmatrix} 0 \\ 0 \\ x \end{pmatrix}$$

and minimizing the cost

$$\min_{u(\cdot)} \int_I F(u(t))dt, \quad (7)$$

where $F = \sqrt{(u^1)^2 + (u^2)^2 + (u^3)^2} + \varepsilon u^1$, $0 \leq \varepsilon < 1$ is the positive homogeneous cost (Randers metric).

The distribution D is generated by the vectors X_1, X_2, X_3 and we can write $D = \{ X_1, X_2, X_3 \}$. We observe that

$$\text{rank} D = \begin{cases} 3 & \text{if } x \neq 0 \\ 1 & \text{if } x = 0 \end{cases}$$

In the canonical base of R^3 we have $X_1 = \frac{\partial}{\partial x}$, $X_2 = x \frac{\partial}{\partial y}$, $X_3 = x \frac{\partial}{\partial z}$ and the Lie brackets are given by

$$[X_1, X_2] = \frac{\partial}{\partial y} = X_4 \notin D, [X_1, X_3] = \frac{\partial}{\partial z} = X_5 \notin D, [X_2, X_3] = 0.$$

It results that the distribution is nonholonomic, but is bracket generating, because the vector fields $\{ X_1, X_2, X_3, X_4 = [X_1, X_2], X_5 = [X_1, X_3] \}$ generate the entire space R^3 .

From (6) we obtain

$$\begin{cases} \frac{dx}{dt} = u^1 = s^1 \\ \frac{dy}{dt} = u^2 x = s^2 \\ \frac{dz}{dt} = u^3 x = s^3 \end{cases}$$

The cost function can be written in the form ($x \neq 0$)

$$F = \sqrt{(u^1)^2 + (u^2)^2 + (u^3)^2} + \varepsilon u^1 = \sqrt{(s^1)^2 + \frac{(s^2)^2}{x^2} + \frac{(s^3)^2}{x^2}} + \varepsilon s^1 = \sqrt{g_{ij} s^i s^j} + \sum_{i=1}^3 b^i s^i$$

(Einstein's summation, $i, j = 1, 2, 3$) where $b^1 = \varepsilon$, $b^2 = 0$, $b^3 = 0$ and

$$g_{ij} = \begin{pmatrix} 1 & 0 & 0 \\ 0 & 1/x^2 & 0 \\ 0 & 0 & 1/x^2 \end{pmatrix}$$

The Lagrangian has the form $L = \frac{1}{2} F^2$ and using [4] (Th. 4.5 pp. 191) we obtain the Hamiltonian in the form

$$H = \frac{1}{2} \left(\sqrt{\tilde{g}^{ij} p_i p_j} - \tilde{b}^i p_i \right), \quad (8)$$

where $\tilde{g}^{ij} = \frac{1}{1-b^2} g^{ij} + \frac{1}{(1-b^2)^2} b^i b^j$, $\tilde{b}^i = \frac{1}{1-b^2} b^i$, $b = \sqrt{g_{ij} b^i b^j}$ and g^{ij} is the inverse of the matrix g_{ij} .

In these conditions we obtain that $b^2 = \varepsilon^2$, $\tilde{b}^1 = \frac{\varepsilon}{1-\varepsilon^2}$, $\tilde{b}^2 = 0$, $\tilde{b}^3 = 0$ and

$$g^{ij} = \begin{pmatrix} 1 & 0 & 0 \\ 0 & x^2 & 0 \\ 0 & 0 & x^2 \end{pmatrix}$$

and it results

$$\tilde{g}^{ij} = \begin{pmatrix} \frac{1}{(1-\varepsilon^2)^2} & 0 & 0 \\ 0 & \frac{x^2}{1-\varepsilon^2} & 0 \\ 0 & 0 & \frac{x^2}{1-\varepsilon^2} \end{pmatrix}$$

From (8) we obtain

$$H = \frac{1}{2} \left(\sqrt{\frac{p_1^2}{(1-\varepsilon^2)^2} + \frac{p_2^2 x^2}{1-\varepsilon^2} + \frac{p_3^2 x^2}{1-\varepsilon^2} - \frac{\varepsilon p_1}{1-\varepsilon^2}} \right)^2, \quad (8')$$

or, in the equivalent form

$$H = \frac{(1 + \varepsilon^2)p_1^2}{2(1 - \varepsilon^2)^2} + \frac{(p_2^2 + p_3^2)x^2}{2(1 - \varepsilon^2)} - \frac{\varepsilon p_1}{1 - \varepsilon^2} \sqrt{\frac{p_1^2}{(1 - \varepsilon^2)^2} + \frac{(p_2^2 + p_3^2)x^2}{1 - \varepsilon^2}}.$$

In the case $x = 0$ we obtain $L = \frac{1}{2}F^2 = \frac{(1 + \varepsilon)^2 u_1^2}{2}$ with the constraints $\dot{y} = 0, \dot{z} = 0$

Using Lagrange multipliers we obtain

$$L_1 = L + \lambda_1 \dot{y} + \lambda_2 \dot{z}$$

and from Legendre transformation it results

$$H_1 = \frac{1}{2} \frac{p_1^2}{(1 + \varepsilon)^2}.$$

For $x = 0$ from (8') we have

$$H = \frac{1}{2} \left(\frac{p_1}{1 - \varepsilon^2} - \frac{\varepsilon p_1}{1 - \varepsilon^2} \right)^2 = \frac{1}{2} \frac{p_1^2}{(1 + \varepsilon)^2},$$

this leads us to the next equality

$$H|_{x=0} = H_1.$$

Next, if we denote

$$\Theta = \frac{p_1^2}{(1 - \varepsilon^2)^2} + \frac{(p_2^2 + p_3^2)x^2}{1 - \varepsilon^2}$$

then the Hamilton's equations (5) lead to the following differential equations

$$\frac{dx}{dt} = \frac{\partial H}{\partial p_1} = \frac{(1 + \varepsilon^2)p_1}{(1 - \varepsilon^2)^2} - \frac{\varepsilon}{1 - \varepsilon^2} \sqrt{\Theta} - \frac{\varepsilon p_1^2}{(1 - \varepsilon^2)^3} \frac{1}{\sqrt{\Theta}}, \quad (9)$$

$$\frac{dy}{dt} = \frac{\partial H}{\partial p_2} = \frac{p_2 x^2}{1 - \varepsilon^2} - \frac{\varepsilon p_1 p_2 x^2}{(1 - \varepsilon^2)^2} \frac{1}{\sqrt{\Theta}}, \quad (10)$$

$$\frac{dz}{dt} = \frac{\partial H}{\partial p_3} = \frac{p_3 x^2}{1 - \varepsilon^2} - \frac{\varepsilon p_1 p_3 x^2}{(1 - \varepsilon^2)^2} \frac{1}{\sqrt{\Theta}}, \quad (11)$$

$$\frac{dp_1}{dt} = -\frac{\partial H}{\partial x} = -\frac{(p_2^2 + p_3^2)x}{1 - \varepsilon^2} + \frac{\varepsilon p_1 (p_2^2 + p_3^2)x}{(1 - \varepsilon^2)^2} \frac{1}{\sqrt{\Theta}}, \quad (12)$$

$$\frac{dp_2}{dt} = -\frac{\partial H}{\partial y} = 0 \Rightarrow p_2 = a = \text{const.}$$

$$\frac{dp_3}{dt} = -\frac{\partial H}{\partial z} = 0 \Rightarrow p_3 = b = \text{const.}$$

In these conditions the relation $\Theta = \frac{p_1^2}{(1 - \varepsilon^2)^2} + \frac{(a^2 + b^2)x^2}{1 - \varepsilon^2}$ leads to the following change of variables:

$$x(t) = \frac{\sqrt{1-\varepsilon^2} r(t) \sin A\theta(t)}{\sqrt{a^2+b^2}}, \quad p_1(t) = (1-\varepsilon^2)r(t) \cos A\theta(t).$$

It results $\Theta = r^2(t)$ and from (9) we get

$$\frac{dx}{dt} = \frac{(1+\varepsilon^2)r \cos A\theta}{1-\varepsilon^2} - \frac{\varepsilon r}{1-\varepsilon^2} - \frac{\varepsilon r \cos^2 A\theta}{1-\varepsilon^2}.$$

But

$$\frac{dx}{dt} = \frac{\sqrt{1-\varepsilon^2}}{\sqrt{a^2+b^2}} (\dot{r} \sin A\theta + rA\dot{\theta} \cos A\theta)$$

and it results

$$c_1 (\dot{r} \sin A\theta + rA\dot{\theta} \cos A\theta) = (1+\varepsilon^2)r \cos A\theta - \varepsilon r (1 + \cos^2 A\theta), \quad (13)$$

where we have denoted

$$c_1 = \frac{(1-\varepsilon^2)\sqrt{1-\varepsilon^2}}{\sqrt{a^2+b^2}}.$$

The equation (12) yields

$$\frac{dp_1}{dt} = \frac{\sqrt{a^2+b^2}}{\sqrt{1-\varepsilon^2}} (-\dot{r} \sin A\theta + \varepsilon r \cos A\theta \sin A\theta).$$

But

$$\frac{dp_1}{dt} = (1-\varepsilon^2)(\dot{r} \cos A\theta - rA\dot{\theta} \sin A\theta),$$

this leads to

$$c_1 (\dot{r} \cos A\theta - rA\dot{\theta} \sin A\theta) = -\dot{r} \sin A\theta + \varepsilon r \cos A\theta \sin A\theta. \quad (14)$$

The equation (13) multiplied by $\cos A\theta$, minus equation (14) multiplied by $\sin A\theta$ lead to the equation

$$c_1 A \frac{d\theta}{dt} = (1-\varepsilon \cos A\theta)^2, \quad (15)$$

and it results

$$t = \frac{A(1-\varepsilon^2)\sqrt{1-\varepsilon^2}}{\sqrt{a^2+b^2}} \int \frac{1}{(1-\varepsilon \cos A\theta)^2} d\theta.$$

Moreover, the equation (13) multiplied by $\sin A\theta$, plus equation (14) multiplied by $\cos A\theta$ lead to the equation

$$c_1 \frac{dr}{dt} = \varepsilon r \sin A\theta (\varepsilon \cos A\theta - 1). \quad (16)$$

From the equations (15) and (16) it results

$$\frac{dr}{r} = -A \frac{\varepsilon \sin A\theta}{1-\varepsilon \cos A\theta} d\theta,$$

this leads to the following result

$$\ln r = -\ln c(1-\varepsilon \cos A\theta), \quad c \in \mathbb{R},$$

and we get

$$r(t) = \frac{1}{c(1 - \varepsilon \cos A\theta(t))}. \quad (17)$$

Using (17) the Hamiltonian become

$$\begin{aligned} H &= \frac{1}{2}(1 + \varepsilon^2)r^2 \cos^2 A\theta + \frac{1}{2}r^2 \sin^2 A\theta - \varepsilon r^2 \cos A\theta \\ &= \frac{1}{2}r^2 + \frac{1}{2}\varepsilon^2 r^2 \cos^2 A\theta - \varepsilon r^2 \cos A\theta \\ &= \frac{r^2}{2}(1 - \varepsilon \cos A\theta) = \frac{1}{2c^2}. \end{aligned}$$

Considering the integral curves parameterized by arc length, that corresponds to fix the level $\frac{1}{2}$ of the Hamiltonian, we have $c = \pm 1$ and it results

$$r = \pm \frac{1}{1 - \varepsilon \cos A\theta}. \quad (18)$$

In these conditions, from (18) we obtain

$$x(t) = \pm \frac{\sqrt{1 - \varepsilon^2}}{\sqrt{a^2 + b^2}} \frac{\sin A\theta(t)}{1 - \varepsilon \cos A\theta(t)}. \quad (19)$$

The differential equation (10) yields

$$\frac{dy}{dt} = \frac{ar^2 \sin^2 A\theta}{a^2 + b^2} (1 - \varepsilon \cos A\theta) = \frac{a}{a^2 + b^2} \frac{\sin^2 A\theta}{1 - \varepsilon \cos A\theta}. \quad (20)$$

From (15) and (20) it results

$$y(t) = \frac{aA(1 - \varepsilon^2)^{3/2}}{(a^2 + b^2)^{3/2}} \int \frac{\sin^2 A\theta}{(1 - \varepsilon \cos A\theta)^3} d\theta(t), \quad (21)$$

In the same way we obtain

$$z(t) = \frac{bA(1 - \varepsilon^2)^{3/2}}{(a^2 + b^2)^{3/2}} \int \frac{\sin^2 A\theta}{(1 - \varepsilon \cos A\theta)^3} d\theta(t), \quad (22)$$

In the particular case of $\varepsilon = 0$ we obtain a distributional system with quadratic cost $F = \sqrt{(u^1)^2 + (u^2)^2 + (u^3)^2}$ with the solution

$$\begin{aligned} x(t) &= \pm \frac{\sin \alpha t}{\alpha}, \\ y(t) &= \frac{at}{2\alpha^2} - \frac{a \sin 2\alpha t}{4\alpha^{3/2}}, \\ z(t) &= \frac{bt}{2\alpha^2} - \frac{b \sin 2\alpha t}{4\alpha^{3/2}}, \end{aligned}$$

where $\alpha = \sqrt{a^2 + b^2}$, which are the geodesics in the framework of the so called sub-Riemannian geometry [3].

4. Conclusions

We have obtained the solution of a distributional system using the Hamilton's equations on dual space and a convenient change of variables. The novelty is to consider the positive homogeneous cost of Randers type as a deformation of the quadratic cost. It is interesting to see that in formula (18) we obtain the parametric equation of the ellipse.

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IMPACT OF THE NATIONAL ECONOMIC FACTORS ON THE COMPETITIVENESS OF THE ROMANIAN INDUSTRIAL PRODUCTS*

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Abstract: In the current circumstances a clear objective of the economic policies all over the world is the improvement of the efficiency of production and trade and in consequence of the competitiveness of the products both internally and internationally. These aspects are essential in the case of Romania because they provide the efficient participation of our country in international commercial flows. This study shows that the products and sectors of the Romanian industry were characterized, at least in the period of 1990, through a relatively low competitiveness, aspect which was pointed out by the evolution of the gross added value.

JEL classification: F40, L60

Key words: competitiveness, national factors, industrial products

The problem of international specialization represents a highly important problem, especially under the current circumstances of the world economy. This may lead to economic advantages materialized in the reduction of the disparities between the levels of development of different states, but, at the same time to the gradual accession to the productivity and prosperity standards specific for the industrial countries. The accomplishment of this objective involves a continuous, regulative feedback in the field of competitiveness, which should be maintained at a high level under the context of the different positive and negative influences of some national and international factors.

Going on the idea of the Porter model, there are four basic factors included in the category of the national economic factors:

a) local resources, where we have to take into account: ♦ human resources (quality, classification and staff costs and management, standard labour time and work ethics); physical resources (abundance, quality, accessibility and cost of land water, mineral reserves, forest reserves, fish reserves, climate conditions, geographical position, etc); ♦ scientific and technological resources; ♦ financial resources, in general; ♦ national infrastructure, the quality and the cost of using the infrastructure(transport, telecommunications, bank transfers, social assistance, etc.). The competitive advantage

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appears when the companies will be able to make a necessary combination of factors at a low cost or if the factors used have a higher qualitative level.

b) dimension and structure of the internal demand, this aspect is leading to important scale economies or to the stimulation of the learning curve, with major influences on the competitiveness internationally. In order for the companies to gain competitive advantage, the internal demand should create enough pressure to influence the accelerated innovation. The high exigency of the national customers may contribute to the increase of the competitive advantage, because it forces companies to use high standards in the field of quality, facilities, services, etc.

A consequence of the dimension of the internal demand is that the small nations may be competitive on segments which represent a high average on a local level, but a low average on a regional or global level.

c) related industries and subassemblies- are highly important in gaining the competitive advantage. The successful development of an industry of subassemblies and components involves the existence of some efficient sub-suppliers and related sub-branches which should stimulate other sectors of activity, creating therefore possibilities for other industries to increase their competitiveness.

d) industrial structure and competition, as a last element of the national economic factors refer to the competitive oligopolistic structure. These structures are extremely strong and stable in time, leading to a series of national rivalries from which the international successful companies usually gain. The oligopoly structures facilitate and conquer new markets because the national rivalries create pressure for innovation which increases the competitive advantage, leading to clear advantages through competitive prices, high quality, response speed, seriousness, long term relationships. In this context, we will obtain a competitive environment which is hard to re-create through the competition with the external rivals.

Along with these national economic factors, another factor with an influence which cannot be neglected is the evolution of the phenomena and processes of the world economy, which are hard to predict or even unpredictable, have a major impact on the evolution of the economic and industrial structures. Because, the long-lasting evolutions of the global market influence the specialization and integration options in the international labour division, the main tendency which should contribute to the orientation of the structures of industry, sub-branches, and groups of products from a national economy refers to the permanent growth of the quality and competitiveness of the products which are submitted to global exchanges. This fact is reflected in the efforts of the industrialized countries towards the improvement of the performances and competitiveness of their products in order to improve the exchange rate.

Starting from the main relevant aspects related to global practice and taking into account the dimension of the national economic environment and the development degree, the structure of the industry from Romania, in the current and next period could suffer a compression and crystallizing around some well defined points and identified according to the interdependencies and determinations among the sectors, branches and sub-branches of the Romanian economy. We anticipate the change of the weight centre of the structural modifications on the level of the branches, sub-branches, and range of products, products and even on some of their components, as an effect of specialization of the principle of complementary production.

Due to the changes in the economic structure both on a macroeconomic level and on a world-economic level from the last decades, the behavior of the economic

operators have taken new shapes. These structural changes which have essentially changes the world economic landscape relied on three main events:

- American deregulation, launched in the 80s which made all the etatist barriers falls;
- The downfall of the economic management communist systems;
- The burst of internet which has led to a revolution in telecommunications, with effects on the organized financial markets, modifying the behavior of the banks and of all its users.

At the same time, the globalization of the markets has determined a globalization of marketing. Global marketing refers to the encouragement of the research initiatives of finding new markets segments or niche all over the world, the capitalization of the buying and selling opportunities of the products and services internationally. The market globalization has triggered a phenomenon of individualization of the consumer's needs. For example, in the context of the single internal European market the consumer is looking more and more for the "European" product, internationally and not nationally. Under the influence of the economic changes, the consumer which was used to the local products gradually becomes more open for foreign products. The producers, in their turn, are transformed in multinational companies.

In the context of these tendencies, a new type of European marketing is defined, the European countries adapting their production and trade strategies in order to take advantage of the new opportunities as much as possible. The strategy relies on the delimitation of the new markets, which are re-grouped on more countries or regions, especially those situated on the border with the former national markets. Gradually, the commercial policy of the enterprise will pass from the segmentation of the national markets to a transnational segmentation in order to reach consumers with identical behavior in many countries. The pair product-market passes from the national dimension to the European and even international dimension. Will appear gradually, for some products, the transnational niche, i.e. segments where the consumer is the same for more countries.

At the same time, production will not be standardized any more, but flexible. The enterprise will no longer be considered isolated; it will have very flexible relations with the suppliers and the distributors. The computer-based design, the flexible workshops will allow producers to meet the changing needs of the customers. The introduction of the products on the market will not be reserved only for the specialized salesmen, but their responsibilities will be split among the other categories of staff of the enterprise which become in this way part-time marketers. The development of production will be made on regions of the world, and a series of standardized component will allow the production of an entire family of products.

We can argue that in this context, of the new type of marketing, the features of the competitiveness concept become more and more complex. An increasing attention is given to the phenomenon of external promotion of goods and services manufacture in a country, of implementing their own investments in foreign territories, in order to impose the national cultural values in the international arena, using a certain "aggression" on the world markets in the fight for winning the more consistent market segments. On the other hand, we can experience nowadays an openness of the markets towards the world competitiveness, through the liberalization of the interface systems

between the national and the world economy, in the case of the financial-banking system, at the same time with the free movement of goods and services.

As a result of the world exchange and cooperation, and of the specialization in fields which have comparative advantages, the countries can accelerate the rhythm of growth and they can expand their range of products. They will be interested to increase their degree of competitiveness in those fields where they have comparative advantages. This thing can be accomplished only if those countries have globally restructured the internal socio-economic system in order to make it more competitive. Even if competitiveness is demonstrated and it is sustained on the world market, it is not real unless it has been obtained a certain economic and social efficiency on the internal market.

In order to identify the industrial sectors with development perspective and to create the sector strategies and the commercial policies which can create the circumstances for the efficient capitalization of those perspectives, we can use a series of indicators in order to assess the competitive advantages on the level of the industry, sectors and groups of products.

Such an indicator is RCA – revealed comparative advantage, which outlines the weight of a sector in the total export of goods and services, compared with its weight in the import of goods and services. This indicator is determined for each industrial sector according to the export of internal production and the import which compete the internal production and not with the import of intermediate goods for internal production. It can be calculated according to the following formula:

$$RCA_i = \ln\left[\frac{(E_i/I_i)}{(E/I)}\right]$$

where: RCA_i = revealed comparative advantage of sector i ;

E_i, I_i = export, respectively import of sector i ;

E, I = exports, respectively total of imports.

If the size of this indicator is positive, then we can talk of a comparative advantage for the sector i , and if it is negative then we have a negative comparative advantage. At the same time, the higher its value, the higher is the comparative advantage for the analyzed sector.

In what competitiveness is concerned, the RCA indicator is more significant than the average of the export of the sector in the total production, because it reflects the intensity of the orientation of the sector both towards export and towards import.

The evolution of this indicator in the period 2006-2008 points out the fact that Romania has a relatively reduced degree of competitiveness of the industrial products, aspect, pointed out by the values registered by the revealed comparative advantage indicator.

From the analysis of the Romanian foreign trade one can notice that in 2006 only 9 industries were registering positive values of the revealed comparative advantage indicator, pointing out a certain comparative advantage in those sectors, and in the years 2007 and 2008 their number increased to 10, after including tobacco in this category. This growth is insignificant, taking into account the fact that most of the sectors of activity are characterized through negative values of this indicator so there is a lack of comparative advantage.

Economic Theories – International Economic Relations

Romanian foreign trade with industrial products and the indicators of the Revealed Comparative Advantage (RCA) according to the Classification of products by activity (CPA) in the period 2006-2008

Code CPA	Name of activity	Export FOB (euro million)			Import CIF (euro million)			RCA		
		2006	2007	2008	2006	2007	2008	2006	2007	2008
	TOTAL , of which only industrial products:	25850	29549	33725	40746	51322	57240	-	-	-
15	Food products and beverages	318	407	564	1724	2283	3042	-1,24	-1,17	-1,16
16	Tobacco products	9	135	262	199	61	76	-2,64	1,35	1,77
17	Textile products	1017	1052	1009	2761	2853	2585	-0,54	-0,45	-0,41
18	Wearing apparel; furs	3179	2880	2533	510	652	780	2,28	2,04	1,71
19	Leather and leather products	1523	1502	1388	1102	1203	1174	0,78	0,77	0,70
20	Wood and products of wood (except furniture)	956	1003	961	363	557	591	1,42	1,14	1,02
21	Pulp, paper and paper products	105	144	129	635	734	798	-1,34	-1,08	-1,29
22	Printed matter and recorded media	29	40	51	138	165	204	-1,10	-0,87	-0,86
23	Coke, refined petroleum products and nuclear fuel	2420	2078	2777	638	769	1297	1,79	1,55	1,29
24	Chemicals, chemical products and man-made fibres	1426	1666	2034	3956	4784	5645	-0,57	-0,50	-0,49
25	Rubber and plastic products	706	976	1199	1979	2353	2539	-0,58	-0,33	-0,22
26	Other non metallic mineral products	246	278	252	789	1057	1256	-0,71	-0,78	-1,08
27	Basic metals	3321	3984	4017	2400	3645	4305	0,78	0,64	0,46
28	Fabricated metal products (except machinery and equipment)	653	890	994	1800	2334	2555	-0,56	-0,41	-0,42
29	Machinery and equipment	1981	2535	2922	4459	5995	6315	-0,36	-0,31	-0,24
30	Office machinery and computers	247	283	563	964	1175	1123	-0,91	-0,87	-0,16
31	Electrical machinery and apparatus	2400	3017	3308	2252	2739	2940	0,52	0,65	0,65
32	Radio, television and communication equipment and apparatus	409	427	1011	1734	2316	2870	-0,99	-1,14	-0,51
33	Medical, precision and optical instruments, watches and clocks	168	222	303	668	859	978	-0,93	-0,80	-0,64
34	Means of road transport	1763	2650	2929	4527	6883	6759	-0,49	-0,40	-0,31
35	Other means of transport	984	1214	1451	383	516	538	1,40	1,41	1,52
36	Furniture; other manufactured goods n.e.c.	1160	1327	1324	709	921	1099	0,95	0,92	0,72
40	Electrical energy, gas, steam and hot water	169	144	275	36	64	45	2,00	1,36	2,34

Source: own calculation according to the Romanian Statistical Yearbook 2009, pp. 901-902

We can notice from the industries which have a positive revealed comparative advantage, in its descending order, that the same industries can be found in 2008 (with small differences in classification as opposed to the previous years); these industries are: electric and internal energy, gas and water; tobacco industry; textiles industry, transport industry; coke, refined petroleum products and nuclear fuel industry; wood and products of wood (except furniture), furniture industry; leather and leather products industry; electrical machinery and apparatus industry; metallurgy industry.

At the same time these 10 manufacturing industrial sectors have contributed and contribute with more than 50% to the export of our country (in 2006-62,32%, in 2007-58,49%, in 2008-54,25%). Although these weights are slightly reduced (which means a small growth of the weight for export for other industrial products), it is still situated relatively high values, which makes the specialization degree of the Romanian economy and its participation in international exchanges quite reduced. The export potential from the Romanian economy in the analyzed period is concentrated along

three fields: wood manufacturing (wood and products of wood, furniture), light industry (textiles and textile products, wearing apparel, leather and shoes) and metal manufacturing (metallurgy, metal constructions and metal products); generally branches consume a lot of resources and energy.

In consequence, in order to improve the competitiveness of the sectors of the Romanian industry we have to act towards increasing the compared advantages through the structural adjustment and foreign direct investments. In order to accomplish all these, a series of actions are necessary:

- investments in transport and commercial infrastructure;
- the improvement of the level of the service network to sustain export;
- free access to information and circulation of innovation;
- promoting an active marketing for the dynamic branches, creating some partnerships production-research-education;
- improving the identification methodologies of the opportunities, strengths, weaknesses in the internal and external trade, creating pilot research centers not only on an aggregate level but also on an industrial and product level.

In this context, our country has to focus strategically on competitive advantages, on the development of some capacities and competences for the export sectors, in order to create highly developed economic environment in the context of globalization and free trade.

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THE LABOUR MARKET IN EU

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Abstract: The number of the EU population is around 500 million inhabitants in 2010. One of the main dreams of the European integration is to create a unified labor market but this hope proved to be difficult to come true. The integration from 2004 and 2007 of a large group of countries, 10 and 2 states which became members of the European Union raises new problems from the point of view of the single labor market. Most of the newly integrated countries are former command economies which are now working as market economies, with labor markets characterized by low salaries and a higher degree of social insecurity.

JEL classification:J01, J08, J21

Key words: labor market, population, Lisbon Strategy, pension, employment

1. Introduction

In the last twenty years, **the active population** in Europe of the 27 has registered a continuous reduction, which can be explained by two causes: **the ageing of the European population** due to the fact that the number of persons which are out of the active age category (64 years) is increasing, while the number of persons entering this category (starting with 15 years old) is decreasing; **the decrease of the occupation degree of the labor force** determined by the restructuring of many activities under the influence of the market demand and technical progress.

The number of retired persons in Europe compared to the one financing their pensions is going to double by 2060. In order to face this challenge, the balance between the period of time spent in activity and the retirement should be carefully examined. Therefore, in 2008 the ration between the active population (15-64 years old) and the EU citizens of at least 65 years was of four to one, but up to 2060 this ratio will decrease to two to one.

The pyramyd of the EU population clearly indicates a significant growth of the birth rate immediately after the end of the second World War, marking the beginning of the "baby boom" period. According to a scenario which takes into consideration the potential growth of the immigration and birth rates, starting with 2012 the active population is going to decrease while the population above 60 years old will continue to grow. This perspective does not take into account the real and potential contribution of the elderly – and especially of the "baby bood" generation. In consequence an essential way of approaching the challenges related to the demographic and preservation ageing of the solidarity between generations is to maintain the "baby boom" generation of the labour market for a longer period of time and to make this generation stay as healthy, active and autonomous as possible.

After a gradual growth between 2002 and 2008 from 62.4% to 65.95%, the occupation rate (15-64 years old) went down in EU to 64% in 2009. Romania is on the last places in EU (24 of 27), having an occupation rate of the population of 58.6% in 2009. The position of Romania is better than the position of the following states: Italy (57.5%), Hungary (55.4%) and Malta (54.9%). The best positioned states were: the Netherlands (77%), Denmark (75.7%), Sweden (72.2%), Austria (71.6%), and Germany (70.9%).

A special feature of EU is the different evolution of the long term occupation for men and women. While the degree of masculine occupation is permanently decreasing, the one of the feminine population is growing. In the case of men, the decrease of the employment is due to the long time of schooling especially due to the growth of the retirement age. The same effects are felt in the case of women but they are dominated by the fact that a higher number of women between 24 and 54 are actively employed.

The employment rate of the women after a continuous growth up to 59.1% in 2008 went down for the first time in 2009, reaching 58,6%. It remained lower than the employment rate of the men, with 12.1 percentage points. Romania: the 23rd place in EU-27 regarding women employment rate. The states towards which Romania was better situated were: Malta (37.7%), Italy (46.4%), Greece (48.9%) and Hungary (49.9%). The best positioned EU states were: Denmark (73.1%), the Netherlands (71.5%), Sweden (70.2%) and Finland (67.9%).- in all member states, the men employment rate was higher than the women employment rate except for Latvia and Lithuania where the differences were very small.

2. Objectives

The European employment strategy and the national one are focused on making the labor market more flexible and on sustaining the employment processes, anticipating the movement of the economic body and of its different components (markets), with mechanisms as education professional development, reconversion, and human development. The competence, quality and performance are development and evolution parameters of the remuneration, as well as of overcoming the salary rigidity of the labor market.

3. Methodology

The study is based on an analytical process capable of identifying the necessary instruments within the social- economic analysis, including the realization of a pattern which will allow collecting and processing the statistic data in a systematic manner. The resulted pattern will help the accurate interpretation and analysis of the risk factors or with increase potential which are foreseen to take place in the next period.

4. Analyses

The main characteristics of the labor market in the European Union are:

Workforce contraction, which refers to the late entrance of the young people of the labor market and to the high number of the persons taking advantage of anticipated pensions, although the retirement age has grown;

Regional disparities in the employment rate, due to the fact unemployment is reduced in the large cities (under 3%), but it affects rural areas. In EU there are regions where employment is reduced: Germany, the Netherlands, and South of England,

Austria and the Northern of Italy and regions where unemployment is very high: Finland, Ireland, Spain, South of France, South of Italy. The richest regions in EU 27 are 9 times wealthier than the poorest regions for the new member states.

Fiscal pressure on the employees, which determined a high average of the persons employed in the underground economy (between 20 and 40 % for the new member states).

The growth of the long term unemployment, cyclic growth which corresponds to the different period of variation of using the labor force according to the fluctuation of the economic activity;

Rigidity and disparities among the different national markets of the labor market: *minimum salaries and un-harmonized salaries* in Great Britain while in France the minimum salary is regulated and represents 50% of the average salary; *very different rules regarding the unemployment aid and its level*, a high level in Greece and Italy and a reduced one in Germany and France.

European unemployment is a *structural unemployment* which depends on the process of developing and creating the salaries on the labor market. The real salaries are negotiated between the trade unions of the owners and one of the employees and according to the situation on the labor market (employment rate) and taking into account the anticipated evolution of the prices.

The economic analysis of the employment and of the policies of using the labor force needs pointing out the ***causes generating unemployment***.

1. The incompatibility between the qualifications available on the labor market and the ones requested by enterprises which generate structural unemployment. From this perspective, the countries where the workforce is not prepared or qualified have higher unemployment rates.

2. ***the differences between the social cost and the private cost of the workforce and the different taxation degree*** (through the social insurance system) existing on the level of the member states explains the discrepancies between the national unemployment rates.

3. ***the institutional factors and the population migration*** can explain the persistence of some strong differences between the European unemployment rates. Even if in Community Europe the free movement of labor force was legitimated by different Treaties, the population flows inside EU are reduced, and only 2% of the population (almost 9 million people) have a different nationality than the one of the country where they are residents.

In 2007, 18.5 million immigrants from the non-community countries were settled in the 27 EU countries, representing 4% of the total of population. It has been assessed that 4,5 million people are living illegally on the territory of.....

The challenges of the European migration are given by the: linguistic barriers; high cost of the residences in the most dynamic regions which can limit or diminish the advantage of the high salaries; the non-harmonization of the regulations regarding diplomas and qualifications in EU; the non-correlation between the structure of the job offers on qualifications from the point of view of geographic distribution of the active employed population and the structure of the demand for certain types of jobs, which can explain a paradox of EU: there are regions which are confronted with a lack of workforce, while others which are confronted with a high degree of unemployment.

4. the significant degradation of the situation of the working places can be explained through the European restrictive economic policies. In this period the interest

rates have grown a lot in Europe which affected the investment process and putting into practice the regulations of the Maastricht Treaty forced the European country to practice restrictive budgetary policies.

5. a high level of the EU unemployment rate is explained through the restrictions imposed by the European economic policies in order *to fulfill the fixed criteria through the Treaty regarding the creation of the Economic and Monetary Union.*

The European Parliament showed that in the current economic conditions which EU is going through one should:

Essential objectives of the European Union and of the member states regarding the employment policy of the workforce should be the following: keeping more viable working places due to the decrease of the short term demand; supporting the creation of new working places; sustaining the purchasing power of the unemployed, and their fast reinsertion of the labor market.

Coordinated investments of the member states in order to carry out the five essential Lisbon objectives – *research, education, active policies on the labor market, child care and stimulating private investments* - should represent an essential element for children and should be considered one of the conditions for the improvement of the participations especially of the women on the labor market.

One should take into account the requirements regarding the promotion of a high level of the labor force, offering a corresponding social protection, fighting against social exclusion, as well as the requirements regarding a high level of education, professional development and human health protection.

Fighting against discrimination on gender, race or ethnicity, religion or faith, handicap, age or sexual orientation ;

Underlines the importance of the actions oriented towards the vulnerable groups in the periods where a high unemployment rate is registered and especially of the actions for the unemployed and immigrants;

Considers that the next reform of the EU structural funds should be focused on creating sustainable, high quality jobs;

Underlines moreover the importance of the education, not only to increase the chances of the workers to get a job but also their mobility, which is important for the good functioning of the internal market; underlines the importance of validating the formal and non-formal aptitudes.

The black labor continues to be a problem in the member states of the European Union. The underground economy undermines the funding of the social security systems, impedes the development of some coherent economic policies and may lead to social dumping. The black labor is practiced especially by the states from the Eastern Europe. In EU-27 5% of the employees admit they have received "envelope salaries" varying from 3% in most of the member states up to 10% in some of the states in Central and Eastern Europe. Most of these workers are students, unemployed and authorized natural persons and the fields using these policies are constructions and domestic services.

Among the traditional causes of the black labor there are high level of taxes and social contributions, as well as the complicated administrative procedures which are to be followed in the legal employment. But, newly there is the tendency to sub-contracting and false business. At the same time in some member states the transition regulations for the workers in the new EU member states have increasingly used the

black labor. The situation is different from one state to another.

The concrete proposals of the Commission on the report of the black market are the following:

The larger reduction of the social contributions and bureaucratic procedures, principles which are mentioned in the Lisbon Strategy for growth and development of the working places

Member states should revise the traditional regulations regarding the labor legislation, because most of them limit the mobility of the workers in the new member states;

Facilitating the good practices system, systematization of the evaluation of the policies in this field and studying the situation of the black labor market;

Member states are invited to consider the possibility of a European cooperation platform between the labor inspectorates and other agencies from the field.

Active involvement of the workers and representatives of the employees in the fight against this practice;

The Lisbon agenda has become known through the objective which it follows, the transformation of the European economy in the most competitive and dynamic economy based on knowledge, which is able of economic growth, with more and better working places and an increased social cohesion. In order to reach up to 2010, this objective (as the member states proposed in 2000), the EU countries should coordinate their efforts in order to obtain not only a radical transformation of the economy but also the adoption of an ambitious program of modernization of the social and educational system.

The Bologna process has gradually increased from 29 states in 1999 to 46 in present. This expansion denotes the fact that the European countries have acknowledged that the national education systems are confronted with internal and external challenges related to the growth and diversification of the university curricula, the possibilities of employing the graduates, the lack of clarifications in key fields and the development of private education institutions and of the transnational education. The affiliation of the countries to the Bologna Process makes possible finding some unitary instruments and solutions which could help at solving these problems and to meet the objectives of the Lisbon Agenda.

Taking into account the fact that the Bologna process is focused only on higher education, after adopting the Lisbon Agenda it became clear that one should have taken measure in the field of professional development and lifelong learning. In consequence, in 2002 the Copenhagen process was launched with the purpose of strengthening the quality and the attractiveness of the professional development and to promote mobility around students and graduates from the professional development area.

In 2002, in order to integrate the previous actions in the field of education and formation on a European level (including the Copenhagen process) as well as the actions carried out by the European Council from Barcelona, they have adopted a working program "***Education and formation 2010***" (Barcelona).

The working program identifies three strategic objectives:

Improving the quality and efficiency of the European education and formation systems;

Improving the access to education and training ;

Opening the education and training system to the whole world;

In order to support the development of education (be it university or professional development), the better integration on the labor market of the European citizens from the European Union has created a series of instruments and we mention: The European Qualification Framework for Lifelong Learning (with the purpose of interconnecting national qualification systems or applying for studies in another European state), [Europass](#) (help to understand and acknowledge the qualifications and competences all around Europe) European Credit Transfer and Accumulation System (creates a common base for the formal recognition of the study periods).

Moreover, for the period 2007-2013, the European Commission has integrated its initiatives in the field of education and development under the umbrella of a single program for Lifelong Learning. This program gives the possibility of the European citizens irrespective of their age to benefit from learning opportunities all around Europe. The program has more components: four sub-programs – Comenius (for schools), Erasmus (for higher education), a transversal program in order to provide the best results and the program Jean Monnet, meant to sustain activities related to the European integration and the European institutions and organizations in the field of education.

5. Conclusions

EC indicates a series of "so-called" measures which can be taken by the Member States for the support of the economic activity. On the whole, the EU member states have focused on maintaining the number of employees through policies which follow:

The support of the economic activities which are viable but which have difficulties in accessing **funds by facilitating the access to capital**. The accent was put on industries which have been strongly affected by the crisis, as the sector of the car manufacturing where many governments have operated a financing scheme of purchasing new cars. Other measures were focused on the fast acceleration of the degree of amortization of the invested capital (the Czech Republic) or releasing funds from the state by employees in order for them to cover a fraction of the staff expenses.

Professional training and reconversion programs. The measures may vary according to their objective. In France the accent was on professional reconversion while in Lithuania the companies were encouraged to keep their employees.

The accent on measures meant to reduce the expenses of the companies before the effective redundancies of their employees. Among these one points out the technical unemployment or reductions in the payment of the social contributions.

Expansion of the unemployment aid and encouraging the part - time labor activities. Austria for example has increased the period for part-time labor from a year to two and Germany has granted incentives in the case of reduction of the number of labor.

Targeted measures destined for the support of the ones from the category of the small incomes as **subventions for energy bills**. Generally these tend to be focused on the directions mentioned above and the ability of the government to finance these measures.

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CRM APPLICATIONS - COMPONENTS*

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Abstract: CRM concerns all forms of managing relationships with customers making use of Information Technology, also integrates internal organization resources and external marketing strategies to understand and fulfill their customers' needs. Worldwide CRM market increased with 12.5 percent from 2007 to 2008 according to Gartner Inc. analysts and will keep this trend in the near future. The components of the CRM are focused on sales, marketing, advertising and customers behaviors. A solution for SMB's could be the open source CRM Systems that could represent an opportunity to develop the relation with customers. SaaS and cloud solutions continue to represent key drivers in the CRM market, a real evolution in computing.

JEL classification: P51, L86, C88

Key words: CRM, software application, analysis, customers, sales, components

For being complete each CRM (Customer Relationship Management) application must contain a lot of components, which represents the basis of any good quality activity with customers. Often the company's interactions with customers, clients and sales prospects are based on this software application. True CRM brings together information from all data sources within an organization (and where appropriate, from outside the organization) to give one view of each customer in real time. This allows customer facing employees in such areas as sales, customer support, and marketing to make quick yet informed decisions on everything from cross-selling and upselling opportunities to target marketing strategies to competitive positioning tactics.

Once thought of as a type of software, CRM has evolved into a customer-centric philosophy that must permeate an entire organization. There are three key elements to a successful CRM initiative: people, process, and technology. It's a strategy used to learn more about customers' needs and behaviors in order to develop stronger relationships with them. After all, good customer relationships are at the heart of business success. There are many technological components to CRM, the more useful way to think about CRM is as a process that will help bring together lots of pieces of information about customers, sales, marketing effectiveness, responsiveness and market trends. If customer relationships are the heart of business success, then CRM is the valve the pumps a company's life blood. As such, CRM is best suited to help businesses

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use people, processes, and technology to gain insight into the behavior and value of customers.

"There's no such thing as CRM," said Jim Dickie, partner for Insight Technology Group, a CRM benchmarking firm that specializes in analyzing how companies are reinventing how they market, sell to, and service customers. "Siebel Systems, alone, has 117 different CRM applications each bred to address different problems." The trick is finding the best solution for your job.

To understand each party's problems, needs, and capabilities, both business managers and IT professionals must familiarize themselves with the other side of the CRM equation. Business managers can come up to speed on CRM technology, and IT professionals can gain insight on how to become more familiar with CRM business issues.

Worldwide CRM market revenue totalled \$9.15 billion in 2008, a 12.5 percent increase from 2007 revenue of \$8.13 billion, according to Gartner Inc. Analysts said that market growth was driven by enterprise investments in technologies focused on customer retention, analytics and on-demand solutions. "Despite financial market volatility, the worldwide CRM market enjoyed its fifth consecutive year of double-digit growth as businesses continued to invest in solutions across all subsegments," said Sharon Mertz, research director at Gartner.

SAP continued to be the market leader accounting for 22.5 percent of worldwide CRM software revenue in 2008 (see Table 1), but this is down from a 25.5 percent share in 2007. Microsoft experienced the strongest growth rate among the top 5 vendors, as its revenue increased 75 percent in 2008.

Table 1. Worldwide Vendor Revenue Estimates for Total CRM Software (Mill. \$)

Company	2008 Revenue	2008 Market Share (%)	2007 Revenue	2007 Market Share (%)	2007-2008 Growth (%)
SAP	2,055	22.5	2,072	25.5	-0.8
Oracle	1,475	16.1	1,320	16.2	11.8
Salesforce.com	965	10.6	676	8.3	42.7
Microsoft	581	6.4	332	4.1	75.0
Amdocs	451	4.9	419	5.2	7.6
Others	3,620	39.6	3,311	40.7	9.3
Total	9,147	100.0	8,130	100.0	12.5

Source: Gartner (July 2009)

While the CRM market remains highly concentrated in Western economies, emerging markets are growing rapidly and now account collectively for nearly 16 percent of the worldwide market, up from approximately 13.8 percent in 2006. Although both North America and Europe underperformed in terms of CRM market growth in 2008, their share of the market remained high at 52.5 percent and 31.6 percent, respectively.

The three phases in which CRM support the relationship between a business and its customers are to:

- Acquire: CRM can help a business acquire new customers through contact management, selling, and fulfillment.
- Enhance: web-enabled CRM combined with customer service tools offers customers service from a team of sales and service specialists, which offers customers the convenience of one-stop shopping.
- Retain: CRM software and databases enable a business to identify and

reward its loyal customers and further develop its targeted marketing and relationship marketing initiatives.

CRM comprises several components absolutely essential to the organization. Each of them offers something different yet its importance cannot be undermined. Recent trends have enabled users to combine two or more components for better success. The Components of CRM are:

- People Management
- Lead Management
- Sales Force Automation
- Customer Service
- Marketing
- Workflow Automation
- Business Reporting
- Analytics

People Management

People Management is nothing but the effective use of people in the right place at the right time. It is imperative to adopt the right measures to ensure that the people skills match their job profiles. This is every large corporates requirement as well as small and medium industries.

Lead Management

Lead Management basically involves the tracking and distribution of sales leads. This benefits the sales, call centre and marketing industries as well. The work involves managing market campaigns, making customized forms, mailing lists etc.

Sales Force Automation

Sales Force Automation is by far one of the most essential components of customer relationship management and also one of the first. Used by almost all organizations it is nothing but a software solution that includes forecasting, tracking potential interactions and processing of sales. The reason this is adopted as part of a CRM solution is because of the need to identify revenue possibilities.

Customer Service

The customer service component in CRM is essential. This is because CRM focuses on collation of customer data, gathering information about their purchase patterns and provides this information to every department that requires it. Therefore vital departments like sales, marketing and personnel stand to gain in their knowledge of the customer. This enables the organization to provide suitable solutions to every customer and thus enhances customer retention and loyalty.

Marketing

Marketing is nothing but the promotional activities that are involved in promoting a product either to a general public or to a specific group. Marketing is different from sales and advertising in that one refers to act of selling itself while the other refers to the strategy involved. Customer Relationship Management facilitates the marketing function in that it increases the effectiveness of marketing by studying the potential targeted customers.

Work Flow Automation

Work flow processes include cutting costs and streamlining processes. It basically saves several people from doing the same job again and again. It reduces work and relieves work force of unnecessary tasks. It also includes things like routing out paperwork and filling out of forms that are essential.

Business Reporting

This is nothing but being able to identify the exact position of your company at any given point of time. CRM plays a pivotal role in that it provides reports on the business. The advantages of this component include the ability to have this information at your instant access at any time. Accurate reports are also ensured. While forecasting is yet another feature it is also possible to actually export these reports to other systems. Historical data can also be saved to use for comparisons later on.

Analytics

Analytics involve the study of data so that information can be used to study market trends. A complete trend study is made possible due to the ability to create charts, figures and diagrams using both historical and current data.

The latest trend involving CRM components is the use of web services which enables organizations to take various components from different industries and basically use them together in a manner that suits their business needs. CRM reviews will give the required information pertaining to what solution provides which functional component.

The Benefits of CRM to Industries Worldwide are:

- Call center efficiency increases
- Marketing campaigns are made easier
- Account information
- Overall revenue increases
- Cost reduction is achieved
- Better customer service is achieved
- Organizations can gain the competitive edge
- Organizations can concentrate more on production
- Constant supply of vital customer data
- Routine tasks are easier to handle
- Marketing and support expenses are reduced
- Sales teams can be effectively monitored
- Teamwork within the organization is achieved
- Communication channels are improved
- Employees have access to customer details more easily
- New selling opportunities can be discovered
- Companies are enabled to be aware of customer needs and are able to react to them in the right manner
- CRM achieves an integrated internal business system
- CRM imposes welcome a much needed discipline within an organization
- CRM technology goes a long way in benefiting the organization itself
- Companies have easy access to purchase histories
- Automation of routine tasks becomes possible
- Companies can monitor their performances regularly

The open source movement has challenged the monopoly of proprietary software systems in the world. Using the collective intelligence and skills of a community of developers who use the power of the Internet to work together, open source software has proved that free software can be of good quality. An open source operating system such as Linux has become a major rival of the proprietary Microsoft

Windows. Open source Customer Relationship Management (CRM) systems have also come up, providing competition to commercial and proprietary CRM systems such as SAP and Microsoft Dynamics.

Difference between Open Source and Proprietary CRM Systems

Software development is the foundation on the basis of which the Information Technology (IT) industry functions. Developers skilled in a particular computer language such as C, C++ or Java, build software or as is commonly described, write code to build various software applications that are then marketed to businesses and individual users. IT companies, such as Microsoft or Oracle, employ thousands of software developers to write code and build cutting-edge proprietary products such as the Windows applications, Internet browsers, Enterprise Resource Planning (ERP) applications and CRM software. These software products are sold to businesses, who pay for the product, implementation and support services. The source code, which is used to build commercial proprietary software such as CRM systems, is copyrighted, and is not accessible to others apart from select company developers.

An open source CRM software is just the opposite. A community of developers usually does the development of open source software. The ideas and skills of hundreds of developers come together in the creation of a single application. The developers usually contribute their expertise for free. An open source CRM system such as SugarCRM also followed the development model.

Open source CRM systems software is typically built using collaborative platforms over the Internet such as Sourceforge.net In the development of the open source CRM, SugarCRM, developers from all over the world came together and wrote the code using their project page on Sourceforge. The programming language used is PHP. The source code and the latest edition of SugarCRM is available for download from their project site.

As open source CRM software is based on freely accessible and modifiable source code, it is a straightforward process to customize it to suit your requirements.

Most open source CRM systems are based on the Linux operating system, which itself is an open source, developed using the collaborative development model. Languages such as PHP and Python can be used for development as well as open database systems such as MySQL, with the use of an Apache HTTP server.

Open Source Licensing for CRM Software System - Free to Use and Modify

While commercial proprietary CRM systems are copyrighted and access to source code is denied, the source code for an open source CRM software system are accessible to all. Open source CRM systems can be offered under the GNU General Public License (GPL). As opposed to copyrighted software, a GNU GPL is a copyleft license, which means the software as a whole is free, and users are well within their rights in using, distributing and making changes to the source code and applications.

The GPL license also gives users the right to benefit commercially from the open source CRM software system. However, the GPL insists that the all users must be able to access the source code and have rights to modify it, even if a commercial product has been built out of the open source software.

Commercial Open Source CRM System

SugarCRM, a pioneer in development of open source CRM system, has released commercial versions of the CRM software. Calling it a "commercial open source" CRM application, the company offers the Community Edition of the CRM

product for free download. The Sugar Community Edition of SugarCRM offers basic functionality. Users and businesses can try the community edition or can opt for the commercial editions for more extended functionality and technical support. Even in the commercial open source edition, users can modify the code to cater to their business needs.

According to SugarCRM, their open source CRM product has been downloaded more than a million times.

Some Examples of Open Source CRM Software

Apart from SugarCRM which is a leader among open source CRM systems, other players include SplendidCRM which focuses on Microsoft based technologies such as Windows, and .NET and VTiger, an India-based CRM provider using LAMP (Linux Apache, MySQL, Python) architecture.

One of the major selling points of Software as a Service is the speed and ease of implementation. That can be a double-edged sword, though. If a customer doesn't see the expected return on its investment, it may just as quickly terminate the service and try out a competitor. It's important to shore up SaaS customer retention by paying close attention to the end-user's needs.

SaaS and cloud solutions continue to represent key drivers in the CRM market, up from 8 percent of the CRM market in 2005 to 20 percent of the market in 2008, according to Gartner (NYSE: IT). SaaS and cloud CRM solutions spurred the evolution of computing -- with no more software installations, no infrastructure management and no more upgrades to test. With SaaS and cloud CRM solutions, development and implementation can now be accomplished in a fraction of the time required for on-premise solutions. And, users will love the new solutions, right?

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APPLIED DISCRIMINANT ANALYSIS IN ESTIMATION OF POTENTIAL EU MEMBERS

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Abstract: The purpose of this research paper is to reveal which European countries are most suitable for EU membership using the multivariate method discriminant analysis. Discriminant analysis is useful for building a model for separation of group membership based on observed characteristics of each country. This analysis is used to model the value of a dependent categorical variable EU membership based on its relationship to seven predictors as important variables for EU integration. Final results confirm that all EU countries are correctly classified as members of the EU. On the other side, Croatia, Norway, Serbia, Switzerland, Turkey and Ukraine are non EU members, and according to the results, they should be part of the EU. Since Norway and Switzerland are not part of the EU due to non-economic reasons, the analysis points out Croatia, Serbia, Turkey and Ukraine as most suitable candidates for integration in the EU.

JEL classification: F15, C19

Key words: EU integration, Canonical discriminant functions, pooled within-groups covariance matrices, Box's M statistic

1. Introduction

Integration in the EU is one of the primary objectives of the government's policy from the southeast European countries. The purpose of this research paper is to reveal which European countries are most suitable for EU membership using the multivariate method discriminant analysis. Leaving the political issues aside, the analysis is only concerned with the economic and demographic variables that have potential influence on country's eligibility for EU entrance.

After the introduction, the second part of the paper analyses the remaining European countries that are applicants for EU accession. Except for the Iceland, all others are South-eastern European countries, and this is why this part is called EU enlargement for South-eastern European countries. It elaborates the economic structure of the accession countries, advantages and costs for joining the EU. The third part of the paper formulates the working hypothesis. The fourth part of the paper is focused on the data and methodology used. It briefly explains the discriminant analysis as a multivariate analysis classification method, while it mainly describes the given output of the analysis³⁹. On one side, the paper explains the statistical procedure to see if all

³⁹ The analysis uses the statistical software SPSS – Statistical Package for Social Sciences.

requirements and assumptions of the discriminant analysis are being met. On the other side, the paper interprets the results in terms of the considered problem, or which of the countries mostly resemble to the EU countries. The fourth part has the final conclusions and recommendations.

2. EU enlargement for south – eastern european countries

2.1 Economic structure

In 2010 there are 9 countries - applicants for EU accession according to the latest data of the European Commission. Only 3 countries have the status “candidate country”, while the other 6 countries are still “potential candidates”. All countries, except for Turkey, Albania and Iceland, are countries from the former Yugoslavia (Table no. 1).

Table no. 1 Applications for EU accession

Country	Status
Croatia	Candidate country
Macedonia	Candidate country
Turkey	Candidate country
Albania	Potential candidate
Bosnia and Herzegovina	Potential candidate
Kosovo	Potential candidate
Iceland	Potential candidate
Montenegro	Potential candidate
Serbia	Potential candidate

The 8 accession countries (without Kosovo) could bring additional 94 millions of consumers to the European Union market.

The level of development represented by the GDP per capita (Table no. 2) proves that the accession countries are at a far lower level of development than the average GDP per capita for the Euro Area which in 2007 was 12.228 US dollars, especially countries like Albania, Macedonia, Bosnia and Herzegovina, Montenegro and Serbia. On the other side Iceland, Croatia and Turkey have high level of development, if indicated by the GDP per capita. Thus, there are three distinct groups of candidates for the European Union:

1. The first group represents very low developed countries with GDP per capita lower than 4.000 US dollars: Albania, Bosnia and Herzegovina and Macedonia.
2. The second group represents low developed countries: Serbia and Montenegro.
3. The third group represents relatively developed countries: Iceland, Croatia and Turkey.

Table no. 2 Economic and demographic data for the applicant countries for 2007⁴⁰

Applicant	Population	Annual GDP Growth (%)	GDP (in US dollars)	GDP per capita	Inflation (GDP deflator) (%)	Mobile subscriptions (per 100 people)
Croatia	4.435.982	5	58.558.231.254	11.552	4	113
Macedonia	2.037.032	6	7.926.664.294	3.836	8	96
Turkey	73.003.736	5	655.881.426.190	9.390	8	85
Albania	3.132.458	6	10.831.224.735	3.383	3	73
BIH	3.778.410	7	15.144.156.753	3.985	6	65
Iceland	310.997	4	19.962.854.200	42.600	6	105
Montenegro	620.941	11	3.846.153.846	5.267	18	
Serbia	7.381.579	8	40.121.875.321	5.462	7	115
Total	94.701.135		812.272.586.593			

Annual GDP growth for the Euro Area for 2007 is 2,7%, which is a stable growth rate. All the accession countries have higher GDP growth rate. This is probably because these are mostly developing countries. On the other side, the inflation rate in the Euro Area is 2,4%, which represents a stable economy. The accession countries have significantly higher level of inflation, which is not a preferable indicator – it signals price instability, and it is incompatible with the Maastricht criteria.

Mobile cellular subscription can sometimes represent country's development level. The average rate per 100 people for the Euro Area is 116, and also countries like Croatia, Iceland and Serbia have high mobile cellular subscription rate. Except for Serbia, both Croatia and Iceland have high GDP per capita, which proves that mobile penetration rate can be a potential development indicator. According to this, it can be confirmed that most of the accession countries need further development.

Table no. 3 GDP structure in the accession countries for 2007

Applicant	Agriculture (% of GDP)	Industry (% of GDP)	Services (% of GDP)
Croatia	6	28	66
Macedonia	12	30	59
Turkey	9	28	63
Albania	21	20	59
BIH	n/a	n/a	n/a
Iceland	n/a	n/a	n/a
Montenegro	9	18	73
Serbia	13	28	59

⁴⁰ The data for 2007 were not available for Kosovo. Kosovo is not included in the further analysis due to the lack of data.

Table no. 3 represents the GDP structure in three main economic sectors: Agriculture, Industry and Services. It is obvious that all of the accession countries have the sector Services as the dominant sector. The second sector after Services is Industry, and the last sector is the Agriculture. The structure in accession countries is compatible the EU structure.

2.2 Advantages and costs

Both the accession countries and EU will have certain advantages and costs from the enlargement. Brief summary follows in Table no. 4.

The accession countries have three major advantages: the access to new and large market, great possibility for labour migration and access to significantly high EU funds. On the other hand, joining the European Union may mean great costs, since vast market may mean severe competition. Integration in the EU also means implementation of great number of EU regulations and legislative, as one aspect of major adjustment problems. Yet, the accession countries have more benefits from the enlargement than the European Union.

One advantage for the EU is securing its own values throughout the newly accepted countries. Yet, new countries may also mean significantly difficult union to govern. Also, increase in population is greater than the increase in the GDP. The disproportion may burden the EU economy. Another problem may be the large number of immigrant workers, yet this sometimes can be taken as advantage in terms of low – cost working force.

Another financial burden is financing the necessary adjustments of the accession countries. Also, the financial benefits that the EU will provide may mean potential loss of job and business in the “sensitive” manufacturing industries and in agriculture in the EU because of the penetration of goods from the east.

Table no. 4 Advantages and costs from the EU enlargement⁴¹

	Accession countries	European Union
Advantages	Access to vast EU market Labour migration Access to EU funds	Securing the EU values
Costs	Fragile economies exposed to competition Adjustment problems Implementation of EU regulations	Complicated and ungovernable union Not proportional increase in population and GDP (if enlargement is realized) Large number of immigrant workers Financing the adjustments of the accession countries Potential loss of jobs and business

3. Formulation of hypothesis

As previously presented in section 2, a general conclusion can be drawn that most of the accession countries are not completely eligible for EU entrance, according to their economic performances: low level of gross domestic product, high inflation

⁴¹ ‘The economics of European integration – Limits and Prospects’ (2005) from Miroslav N. Jovanović, pages 828 – 843.

rate, low level of development and high unemployment. Yet, let us consider the Fifth EU Enlargement. Here eight Central and Eastern European countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) and the Mediterranean islands of Malta and Cyprus joined the EU in 2004. This was the largest single enlargement in terms of people, landmass and number of countries, and not in terms of GDP. Romania and Bulgaria joined the EU in 2009, as part of the same enlargement. Many of current the member states were concerned that these are less developed countries and as a result of this placed number of travel and work rights restrictions.

The conclusion is that European Union has expanded with the countries that are less developed than the current member states and probably don't fulfill all the required Maastricht criteria for Economic and Monetary Union. This was the reason why this analysis was encouraged. Fact is certain countries included in the analysis are not yet prepared for the EU accession, according the economic criteria. Yet, EU integration is possible process, according to the past enlargements.

In order to define the working hypotheses, analysis of the economic structure previously explained was taken into account. The hypotheses are:

H_1 : Very low developed countries Albania, Bosnia and Herzegovina and Macedonia should not be classified as EU members in the discriminant analysis.

H_2 : Low developed countries Serbia and Montenegro could be classified as EU members in the discriminant analysis.

H_3 : Relatively developed countries Iceland, Croatia and Turkey are most likely to be classified as EU members.

H_4 : Countries that are not part of the EU due to political and not economical reasons are most likely to be classified as EU members.

The validity of the formulated hypothesis will be examined in the procedure of the discriminant analysis.

4. Data and methodology

Discriminant analysis is useful for building a model for separation of group membership based on observed characteristics of each country. This analysis is used to model the value of a dependent categorical variable EU membership based on its relationship to seven predictors as important variables for EU integration. The procedure generates a discriminant function based on linear combinations of the predictor variables that provide the best discrimination between two groups of countries: EU members and non EU members. Analysis shows which countries should be part of their group and which are misclassified on the basis of the considered variables.

The main purpose of this paper is to perform discriminant analysis of the countries which are members of the European Union and countries which are not members of the European Union using the following independent and continuous variables: *foreign direct investments, gross domestic product, change in the gross domestic product (in percentage), inflation, users of the mobile telephony, population and country's surface area*. Except for the last two variables, it is considered that all remaining variables are indicators of one country's growth and development, which is important prerequisite for European Union membership. The discriminant analysis

should show which of the variables has the highest contribution in separation of the groups of EU member countries and non EU member countries. This variable would then be considered as the most important variable for membership in the European Union.

After the discrimination, on the basis of the calculated discriminant coefficients, classification of the countries is performed. This classification will show which of the countries are correctly classified, and which are misclassified. This will be used as indicator for the countries that have the largest potential for EU membership, or the countries that are not EU members, and according to the analysis are classified in the group of EU members.

The analysis includes 48 countries or observations, seven independent continuous variables and one dependent categorical variable – *EU membership*. The categorical variable has only two categories, or two groups: 1 – countries that are EU members and 0 – countries that are not EU members, which clearly reflect differences in the independent variables. When the number of groups is small, the complexity of the analysis is not increased.

The data source is the official statistics of the World Bank for 2007.

The discriminant analysis evaluates one discriminant function. The number of discriminant functions represents the number of groups minus one, or in this case $2 - 1 = 1$. The sample size is also important, specially the number of observations per group. In the analysis each group has more than twenty observations, or the first group has 22 observations and the second group has 26 observations, and because the groups are approximately equal, there is no situation which involves disproportionate chances for classification. Due to the missing data, two observations are excluded from the analysis.

The next step is examination of the conditions of the discriminant analysis. First, the data are being scanned. For this Mahalanobis D^2 distance is used. The smallest value of the Mahalanobis distance is 0,65 for Macedonia and 43,89 for Russia. This is an indicator that in this data set Russia should be excluded from the analysis as nonstandard observation. Before the Russia is removed, normality test is conducted. Kolmogorov – Smirnov normality test is used for examination of the normality of the variables. The statistical software SPSS which is used for this analysis does not have a multivariate normality test, so only the separate normality tests for each independent variable is realized. Kolmogorov – Smirnov test proves that the independent variables do not have a normal distribution.

Since there are nonstandard observations and the variables do not have normal distribution, logarithmic transformation of the variables is performed. Only for the variable change in the gross domestic product has square root transformation. After the transformation, the Mahalanobis distance is 0,82 for Croatia and 19,14 for Luxemburg, which means that now there are no nonstandard operations. Also, the normality tests prove that after the transformation, all variables have normal distribution except inflation and users of mobile telephony. The data base for the discriminant analysis has been improved.

In order to save space, the independent variables are represented as: LOG_FDI – Logarithmic transformation of *Foreign direct investments in US dollars, net inflow*, LOG_GDP – Logarithmic transformation of *Gross domestic product in current prices, in US dollars*, SQRT_GDP% - Square root transformation of *Annual growth of the gross domestic product in percentage*, LOG_INF – Logarithmic transformation of

Inflation or gross domestic product deflator, annual and in percentage, LOG_UMT – Logarithmic transformation of *Users of mobile telephony (on 100 residents)*, LOG_POP – Logarithmic transformation of *Total population*, LOG_SUR – Logarithmic transformation of *Surface area of the country in square kilometers*.

Further, the results from the SPSS software are presented.

There are several tables that assess the contribution of each variable to the model, including the tests of equality of group means, the discriminant function coefficients, and the structure matrix. The tests of equality of group means measure each independent variable's potential before the model is created. Each test displays the results of a one - way analysis of variance for the independent variable using the grouping variable *European Union membership* as the factor. If the significance value is greater than 0,10, the variable probably does not contribute to the model.

According to the results in this table, only variables *Population* and *Surface area* are not significant.

Table no. 5. Test of equality of group means - Assessing the Contribution of Individual Predictors

Variable	Wilks' lambda	F	Degrees of freedom 1	Degrees of freedom 2	Significance
LOG_FDI	0,73	16,67	1	44	0,00
LOG_GDP	0,75	14,73	1	44	0,00
SQRT_GDP%	0,78	12,75	1	44	0,00
LOG_INF	0,75	14,57	1	44	0,00
LOG_UMT	0,60	28,97	1	44	0,00
LOG_POP	0,99	0,27	1	44	0,60
LOG_SUR	0,96	2,04	1	44	0,16

Wilks' lambda is another measure of a variable's potential. Smaller values indicate the variable is better at discriminating between groups. The table suggests that *Mobile cellular subscriptions (per 100 people)* is best, followed by *Foreign direct investment, GDP (current US\$), Inflation, GDP deflator (annual %), and GDP growth (annual %)*. (Table no. 5).

The pooled within-groups matrices are calculated and they display a covariance matrix and a correlation matrix. The pooled within-group matrices are very different from the usual matrices where all cases are treated as a single sample.

The within-groups correlation matrix shows the correlations between the predictors. Pooled within-groups correlations are computed from the covariances and variances. In the correlation matrix the coefficients on the main diagonal are always 1,0, because each variable has a perfect positive linear relationship with itself. Correlations above the main diagonal are a mirror image of those below. If there are several strong correlations (greater than say 0,75 or less than -0,75) there may be alternative subsets of variables that would perform equally well. The largest correlations occur between *GDP (current US\$)* and the *Foreign direct investment, net inflows (BoP, current US\$)*, but it is difficult to tell if they are large enough to be a concern. We shall look for differences between the structure matrix and discriminant function coefficients to be sure.

The pooled within-groups covariances are obtained by averaging the separate covariance matrices for all groups. The covariance matrix displays variances on the main diagonal and covariances elsewhere. Covariances above the main diagonal are a mirror image of those below.

One of the necessary assumptions for discriminant analysis is equality of group covariance matrices. In this example, the covariances and variances for *Mobile cellular subscriptions (per 100 people)* appear to differ most. There is no simple Levene test to test for equality of covariances.

One way to determine if the covariances are equal is to use the covariance matrices and the within-group scatter plots (setting all the plot scales the same).

Table no. 6 Box's Test of Equality of Covariance Matrices - Checking Homogeneity of Covariance Matrices

Box's M		52,06
F	Approximately	1,53
	Degrees of freedom 1	28
	Degrees of freedom 2	5824,99
	Significance	0,04

Box's test tests the null hypothesis of equal population covariance matrices or the assumption of equality of covariances across groups. The significance of Box's M statistic is based on an F transformation. The hypothesis of equal covariance matrices is rejected if the significance level is small (less than say 0,10). The hypothesis of equal covariance matrices is not rejected if the significance level is large (more than say 0,10). The test can be significant when within-group sample sizes are large or when the assumption of multivariate normality is violated.

Since Box's M is significant for level of significance 0,01 (if $p\text{-value}=0,036 > 0,01$ the null hypothesis is accepted), we look at the separate matrices to see if it gives radically different classification results. (Table no. 6).

The final comment about the assumptions of the discriminant analysis is that the most of the explanatory variables are independent, multivariate normality of the explanatory variables exists and there is homogeneity of the covariance matrices (at 0,01 level of significance). This leads to conclusion that the results of the discriminant analysis are valid.

The following section represents the assessment of the model fit through the canonical discriminant functions. In addition to measures for checking the contribution of individual predictors to your discriminant model, the discriminant analysis procedure provides the eigenvalues and Wilks' lambda tables for seeing how well the discriminant model as a whole fits the data.

Table no. 7 Eigenvalues (a)

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	1,16	100,00	100,00	0,73

(a) First 1 canonical discriminant functions were used in the analysis.

The eigenvalues table provides information about the relative efficacy of each discriminant function. When there are two groups, the canonical correlation is the most useful measure in the table, and it is equivalent to Pearson's correlation between the discriminant scores and the groups. (Table no. 7).

Table no. 8 Wilks' Lambda

Test of Function	Wilks' Lambda	Chi - square	Degrees of freedom	Significance
1	0,46	31,15	7	0,00

The test of functions column tests the hypothesis that the means of the functions listed are equal across groups. The small significance value indicates that the discriminant function does better than chance at separating the groups, like in the analysis. (Table no. 8).

Table no. 9 Standardized Canonical Discriminant Function Coefficients

Variable	Function
	1
LOG_FDI	-0,23
LOG_GDP	1,67
SQRT_GDP%	0,04
LOG_INF	0,44
LOG_UMT	0,38
LOG_POP	-0,23
LOG_SUR	-1,11

The standardized coefficients allow you to compare variables measured on different scales. Coefficients with large absolute values correspond to variables with greater discriminating ability, in this case *GDP (current US\$)* is a variable with greatest significant discriminating ability, follows *Surface area (sq. km)* which is insignificant, then follows *Inflation, GDP deflator (annual %)*, *Mobile cellular subscriptions (per 100 people)*, *Foreign direct investment, net inflows (BoP, current US\$)*, *Population, total* (which is insignificant) and the last variable *GDP growth (annual %)*. (Table no. 9).

The structure matrix contains within - group correlations of each predictor variable with the canonical function.

Table no. 10 Structure Matrix

Variable	Function
	1
LOG_FDI	0,75
LOG_GDP	0,57
SQRT_GDP%	0,54
LOG_INF	-0,54
LOG_UMT	-0,50
LOG_POP	-0,20
LOG_SUR	0,07

Since the structure matrix is unaffected by collinearity, it's safe to say that the first several variables best discriminate between EU members and non EU members.

When there are more than two groups, the number of canonical variables is k-1 (where k is the number of groups) or p (the number of variables), whichever is smaller (Table 11).

Table no. 11 Canonical Discriminant Function Coefficients

Variable	Function
	1
LOG_FDI	-0,33
LOG_GDP	2,33
SQRT_GDP%	0,07
LOG_INF	1,29
LOG_UMT	0,02

LOG_POP	-0,39
LOG_SUR	-1,73
(Constant)	-13,42

The coefficients of the canonical variable are used to compute a canonical variable score for each case. The coefficients displayed in this table are the coefficients of the canonical variable. For example:

$$\text{Canonical variable score} = -0,33\text{LOG_SDI} + 2,33\text{LOG_GDP} + 0,07\text{SQRT_GDP\%} + 1,29\text{LOG_INF} + 0,02\text{LOG_MOB} - 0,39\text{LOG_POP} - 1,73\text{LOG_POV} - 13,42.$$

In order to compute the canonical variable score it is necessary to substitute the values of LOG_SDI, LOG_GDP, SQRT_GDP%, LOG_INF, LOG_MOB, LOG_POP and LOG_POV for a specific case. When there are more than two groups, the number of canonical variables is $k - 1$ (where k is the number of groups) or p (the number of variables), whichever is smaller.

Standardized canonical discriminant function coefficients are used when variables are measured in different units and the magnitude of an unstandardized coefficient provides little indication of the relative contribution of the variable to the overall discrimination. Standardizing the coefficients allows examination of the relative standing of the measurements.

Unstandardized coefficients are used for calculation of the discriminant scores presented in the analysis.

Table no. 12 Functions at Group Centroids

EU membership	Function
	1
0	-1,20
1	0,92

Unstandardized canonical discriminant functions evaluated at group means are presented in the table. Table no. 12 displays the canonical variable means by group. Within - group means are computed for each canonical variable. In this example for the first canonical variable, the average discriminant or canonical variable score for non EU countries is -1,2 and that for EU countries is 0,923.

Classification statistics are presented next.

Table no. 13 Prior Probabilities for Groups

EU membership	Prior	Cases Used in Analysis	
	Unweighted	Weighted	Unweighted
0	0,44	20	20
1	0,57	26	26
Total	1,00	46	46

Table no. 13 displays the prior probabilities for membership in groups. A prior probability is an estimate of the likelihood that a case belongs to a particular group when no other information about it is available.

The classification functions are used to assign cases to groups. There is a separate function for each group. For each case, a classification score is computed for

each function. The discriminant model assigns the case to the group whose classification function obtained the highest score (Table no. 14).

Table that contains the casewise statistics which display the actual and the predicted group for all countries is not displayed in this paper due to its length.

The number and percentage of cases correctly classified and misclassified from the original sample are: 41 (15+26) or 85,42% of the cases were classified correctly, and only 7 cases or 14,58% from cases that belong to group 0, are classified in group 1. There are no misclassified cases that originally belong to group 1 and are classified as cases from group 0.

Table no. 14 Classification Function Coefficients

Variable	EU membership	
	0	1
LOG_FDI	-5,11	-5,81
LOG_GDP	111,63	116,57
SQRT_GDP%	32,93	33,09
LOG_INF	98,05	100,79
LOG_UMT	-0,37	-0,33
LOG_POP	-30,80	-31,63
LOG_SUR	-56,45	-60,13
(Constant)	-386,90	-414,83

The original results may provide overly optimistic estimates. Cross-validation attempts to remedy this problem. With cross-validation, each case in the analysis is classified by the functions derived from all cases other than that case. In the cross-validate sample 37 (13+24) or 77,08% of the cases were classified correctly. Number of the misclassified cases is 11 (2+9) or 22,9%. Two cases that belong to group 1 are classified as members from group 0, and 9 cases that belong to group 0 are classified as members from group 1.

If the percentage for correct classification is significantly lower for the cross-validated cases than for the original cases, then there are too many predictors in the model. Here, the difference is 8,33% which does not appear to be significant in size.

Since Box's M is not significant, or variances of the independents among categories of the categorical dependent are not homogenous, it's no worth running a second analysis to see whether using a separate-groups covariance matrix changes the classification.

5. Conclusions

Final results confirm that all EU countries are correctly classified as members of the EU. On the other side, Croatia, Montenegro, Norway, Serbia, Switzerland, Turkey and Ukraine are non EU members, and according to the results, they should be part of the EU. Since Norway and Switzerland are not part of the EU due to non-economic reasons, the analysis points out Croatia, Serbia, Turkey and Ukraine as most suitable candidates for integration in the EU.

If we associate the findings of the analysis with the previously defined hypothesis, the final conclusions can be drawn:

H_1 : Very low developed countries Albania, Bosnia and Herzegovina and Macedonia should not be classified as EU members in the discriminant analysis.

The first hypothesis is true. The analysis has confirmed that the very low developed countries are not ready yet for an EU accession.

H_2 : Low developed countries Serbia and Montenegro could be classified as EU members in the discriminant analysis.

Low developed countries could be classified as EU members, since the discriminant analysis has confirmed this hypothesis. The difference between the very low developed countries and low developed countries is crucial for membership in the EU.

H_3 : Relatively developed countries Iceland, Croatia and Turkey are most likely to be classified as EU members.

The analysis has confirmed that relatively developed countries are most likely candidates for EU membership, since Croatia and Turkey are classified as EU members. Iceland is not part of this group according to the analysis.

H_4 : Countries that are not part of the EU due to political and not economical reasons are most likely to be classified as EU members.

The last hypothesis also appears to be true. Norway, Switzerland and Ukraine are not part of the EU due to non economical factors. Since the discriminant analysis considers mostly economic and some demographic variables, these countries are classified as very likely EU members.

Variables that mostly contribute to the discrimination are mobile subscriber's penetration rate, foreign direct investments and size of the gross domestic product. High mobile penetration rate as indicator of country's development, high foreign direct investment inflow and large gross domestic product are key variables for EU membership and area of focus for potential candidate and applicant countries.

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TRANSPORT SECTOR DEVELOPMENT PERFORMANCE: ALBANIAN CASE

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Abstract: Albanian economy, is progressing to achieve its own major improving the overall wellbeing and at the same time to fulfill the obligations for regional and European integration. There is a gap between the demands of country development and the situation in the transport sector. Being conscious for the importance than Transport sector has in the country development, a lot has been done during these years, but still there is along way to go on....This paper describes in details the progress done and it clearly report on the challenges of Albanians in this sector. At the ends some recommendation is give in context of Public- Private partnership, reconstruction and concession.

JEL classification code: L91, L96, O11

Key words: transport, network, concession, privatization, regional integration,

1. Introduction

The accelerated development of the country to fulfill the major objectives of regional and European integration within a relatively short time, set on the agenda, among others, the rapid development of transport sector and its performance improvement. On the other hand, Albanian geographic position and the increasement of trade volume in the coming years between Albania and other countries like Kosovo, Croatia, Macedonia, etc will depend also on the transport sector much more than before

The *overall condition of the transport network is poor*, reflecting the limitations, despite progress, in both managerial capacity and maintenance expenditures over the previous decade.

In the frame of the economic challenges and the requirement for regional and European integration, there have been progressive changes in Albanian transport sector, but there are still critical challenges to cope with. The challenges and changes needed are discussed in these dimensions:

- *Integration into the European Legislation:* Albania has already planned a series of measures to meet its obligations as a member enjoying full rights out of the Process of Stabilization and Association

-*Investments and their sources:* state, private as well as foreign investors,

-*Different aspects of restructuring (like railway sector)* including the setting up of new enterprises and a better management of the sub sectors of transport;

-*Privatization and concessions:* There is still discussions going on among

Albanian specialists and national and international institutions in the filed of restructuring and privatization & concessions. Albanian authorities are in the process of evaluating some expressions of interest in reaching a concession agreement by foreign companies but this has to be carefully developed. We need to find a balance between our obligations to the European Community standards and our need to accelerate investment in the railway infrastructure. It is stressed out that, without aggressive trade and transport facilitation, the reform of, and investments in, the transportation sector and the setup of logistical and distribution centers can bring only limited results. On the other hand, the improvement of overall performance of transport sector, besides restructuring, privatization and concessions, needs also, staff reduction, because state owned companies are seen as entities with much higher social responsibilities. Reform challenges not only in Albania, but throughout the region, include overstaffing, high costs and a lack of modern management

2. Background: the transport sector situation & demand for changes

Despite the difficulties that Albania has faced during years, it has achieved significant progress and impressive economic growth. GDP grew in average by about 7 percent during the period 1996-2009, while GDP per capita increased from \$2,619 in 2005 to over \$ 3200 in 2008. While these accomplishments are impressive, Albania still remains one of the countries, which is coping with serious challenges. Transport sector development is one of critical challenges for several reasons, among them are:

- *First*, in a broader point of view, Albanian geographic position gives it a potentially important role in the movement of trade between Southern Europe, Greece and countries of the Balkans (SEE). Albania is traversed by both the TEN Corridor VIII, crossing from the port of Durres to the port of Varna in Bulgaria, and other key routes as part of the SEE “Core network”. The new motorway to Kosovo, opened in June 2009, will bring about step changes in the time and user costs of traffic between the Port of Durres and Kosovo, and will potentially form the shortest route between Adriatic and Corridor X.
- *Second*, while there is a large potential benefit for the country, Albania still *lags behind* in terms of trade logistic environment in the region and Europe. The World bank Report of 2007 ranks Albania 139 out of a total of 150 countries on the basis of the calculated *Logistic performance index* falling significantly below expectations compared to its PPP income level, and reflecting comparative weakness, including among others, the quality of transport and Information Technology for logistics, ease and cost of international shipments etc.
- *Third*, the accelerated development of the country with multiple objectives (to improve the standard of living and being a member of European family within a relatively short time), needs radical improvements in the transport sector.
- *Fourth*, Among the critical challenges for a sustainable development from the international institutions, it is said at EBRD report 2006: “*infrastructure improvements, including upgrades of the road system, modernization and expansion of seaports and regional airports, progress in restructuring and privatization of utilities to ensure reliable services....*”.

3. Transport sector development in the region of south east European countries

Albanian geographic position does explain why the analysis of transport sector development in Albania can not leave aside the key developments of this sector in our region of SEE. The policies developed from different international organizations like Word Bank, EBRD etc can not be highly effectively without filling the gap of transport sector development within the region countries. The increasement of trade volume in the *coming years* between Albania and other countries like Kosovo, Croatia, Macedonia, etc will be depend on the transport sector much more than before. The transport system has long been acknowledged to be an essential component in facilitating economic development, leading to employment opportunities, and poverty alleviation. The road transport network in the SEE countries stretches for over 240,000 kilometers, of which some 13 % are primary or arterial roads, 30% are secondary roads and 56% are tertiary or local roads. The proportion of motorways within the first category has been increasing, reflecting the exogenous classification of certain corridors and the concomitant domestic political importance.

The individual national networks represent a sizeable asset for each of the countries, possibly one of their largest and most significant, which would be comparable to many of the largest commercial enterprises in the respective countries. On a replacement costs basis, the primary road network in the region is estimated around US\$9.6 billion, predicating a unit replacement cost of US\$ 400,000 per kilometer, which is a conservative estimate.

The overall condition of the road transport network is poor, reflecting the limitations, despite progress, in both managerial capacity and maintenance expenditures over the previous decade. There is significant variation in the condition of the road networks within the different countries; Croatia's road network is, generally, in good condition while Albania's road network is in poor overall condition. Only 10 percent of the national road network in Albania was considered to be in good condition, with an additional 22 percent in fair condition, whilst the remaining 68% was in poor condition⁴².

The railway industry has substantial assets in this region, including nearly 25,000 km of route, over 34,000 km of track, over 3000 locomotives, over 10,000 passenger cars and units of multiple formations, and around 100,000 freight wagons (including privately-owned wagons). But only 10% of the rail network is regarded as being in good condition, despite having sufficient capacity to carry current traffic volumes, which are considerably below historic levels.

Despite investment, most of the rail lines of the region need to be modernized and maintained... In addition, the quality of much of the locomotive and rolling stock fleet is poor. The average age of stock has been increasing by over nine months for each elapsed year for a decade and a substantial proportion of the units are out of service, either awaiting repair, or due for scrapping etc.

The analysis of different international institutions, especially from the World Bank, considers railway and roads as important cases for deepening the regional integration. Railways constitute a network industry with substantial economy of scale. In small countries, seamless operation railway transport is critical to profitable

⁴² World Bank (2004c).

operations. Reform challenges throughout the region include overstaffing, high costs and a lack of modern management.

Having in mind this framework, the study is additionally focused on a demand and supply analysis of the economic development versus transport situation

The foreign trade with other countries (especially with EU and region) has increased significantly. In 2007 Albania exports amount to 784.7 Mln/€, with an increase of about 24.8 %, considered the highest in the last five years, whereas in 2006 this rise consisted of 19.2 %. Likewise, there was an increase in the ratio of exports toward GDP, where in 2007 it is estimated at 9.9 % of GDP. Albania Trade Exchange Volume in 2007 was estimated at 3'833.3 mln €, increasing by 25% in comparison to 2006. The forecasted growth of exports for the period 2005-2013 is an average of over 12% a year.

Table no. 1 Total exports of goods during the period 2005-2013

Exports	UNIT	2005 Actual	2006 Projection	2007	2008	2009	2010	2011	2012	2013
Total exports of goods (X)	Million €	528	629	720	810	910	1020	1139	1300	1509
Percentage increase in exports	%	8.1%	19%	14%	12%	12%	12%	12%	14%	16%

Source: Ministry of Economy, May 2008

Meantime the traffic of passengers in the coming years is foreseen to be increased dramatically. According to the estimations, the annual volume of passengers would shift from 561 000 in 2003 to 2 276 000 passengers in 2023. Consequently, in 2023 the total passengers flow is foreseen to be 89.4 million passengers –km, which presents a 9% average annual growth between 2003 and 2023. While the trade volume and passenger traffic is increasing fast, there is raised a question: Are the conditions of the transport sector in a situation to cope with all the challenges ahead? The analysis is not limited only in a national level; the regional analysis includes also, stressing the conditions in the region, as well as the progress made...

The overall condition of the road transport network is poor, reflecting the limitations, despite progress, in both managerial capacity and maintenance expenditures over the previous decade. There is significant variation in the condition of the road networks within the different countries; Albania's road network is in overall poor condition. Only 10 percent of the national road network in Albania was considered to be in good condition, with an additional 22 percent in fair condition, whilst the remaining 68% was in poor condition.

The railway industry has substantial assets in this region, but only 10% of the rail network is regarded as being in good condition, despite having sufficient capacity to carry current traffic volumes, which are considerably below historic levels. The reform process on the railways of the region has started and is progressing, with a recent report characterizing two of the countries as 'high reformers', Bulgaria and Romania and recently Macedonia, while Albania is still behind other countries.

4. Progressive developments and restructuring processes

There have been progressive developments of the Albanian transport sector in context of economic challenges and the requirement for regional and European integration. The challenges and changes are discussed in these dimensions:

4.1 Integration into the European Legislation

Albania has already planned a series of measures to meet its obligations as a member enjoying full rights out of the Process of Stabilization and Association. Regarding the sector of road transport, integration into the EU implies conformity with the legal framework of transport legislation with the Standards and International Regulations, especially by getting the Border Safer and by facilitating border movement and improving the transport network; thus gradually eliminating the so-called non-physical barriers.

The Albanian Government has signed the Memorandum of Understanding for the Core Network (SEETO). This network which mainly aims at facilitating the integration of Southeast Europe in compliance with the intentions of the Process of Stabilization and Association includes together with the segments of the Pan-European Corridors IV, V, VII, X even the Corridor VIII (Durrës – Varna via Tirana), ports of Durrës and Vlorë and the Rinas Airport.

The reform process on the railways of the region has started and is progressing, with a recent report characterizing two of the countries as ‘high reformers’, Bulgaria and Romania. Reform process in the rail sector in Macedonia has moved ahead during the last year. In the SEETO Workshop (2007)⁴³ it was emphasized that “The public enterprise Macedonia Railways will be divided in two entities: a-public enterprise for infrastructure where state is the owner, b-shareholding company for transport, the sole shareholder is the state till the preparation of the study by World Bank according to which the privatization model will be adapted” However, further work is required in all the remaining countries of the region, with the reform process yet to leave the ‘station, in Albania.

There are still discussions going on among Albanian specialists and national and international institutions about *restructuring* and *privatization* and concessions. Remarks and discussions on these issues are of critical importance because of the situation we are coping with in the transport sector.

The investments needed for the coming years are beyond state capacities. Needs to finance the road sector are focused on increasing demands and a further development of the national road network by coordinating incomes from road users taxes and conductors of vehicles. Moreover, projects with great values are foreseen to be funded by foreign donors and by the domestic private or foreign sector.

A program of road investment of about 560 million USD for 20 years is proposed to be incorporated to the National Plan of Transport. It is worth underlining the fact that the budget approved only for 2007 predicted 27 milliard leks of investment (about 270 million USD), whilst out of this, only the internal financing is about 14 milliard leks (or about 140 million USD). Concerning a fair distribution of current expenditure and capitals to support the quotas defined, the same percentage is preserved, although it is increased in absolute value as current expenses and capitals.

In a regional viewpoint, a significant number of the former public sector companies that now operate in the sector as joint stock companies suffer from over-employment. In some cases the over employment can amount to 30% of the total work force, with significant over-manning found in the repair and maintenance departments.

⁴³ SEETO Workshop on the public private partnership, Ohrid March 2007

In the SEE region, the majority of companies continue to undertake their own repair and maintenance, often employing a large staff of mechanics.

If we take into consideration the railway sector, according to the figures of the period 1996-2002, the productivity from 1996 to 2002 grew only 119%, meanwhile in Bosnia & Herzegovina it had a growth of more than 200%, in Macedonia more than 300%. The productivity growth in Albania is comparable only with Serbia & Montenegro. In absolute terms, the productivity in Albania is far below that of other Central East European countries, except with Bosnia & H. The staff within this period is reduced more than 200% but still it remains high, even with reductions during the last years.

Based on international experience *Public Private Partnership* is very important. The agency operating the toll roads under a concession agreement does not have to be owned by the private sector. As a relatively autonomous public entity, the public concessionaire can increase the funding available for investment by calling on private capital markets (by issuing revenue bonds). The relationship between the (public) owner of the road and the (public) concessionaire then needs to be spelled out in exactly the same way as if the concessionaire had been private. In this way, the public private partnerships, can therefore offer an effective solution.

4.2 Albanian railways restructuring

EU rules game on transport promote rail traffic, fair and free competition, international aspects, separation of infrastructure management – freight transport and passenger transport, support of infrastructure management role, framework for licensing and access charging.

Albanian railway (AR) is developing an investment program that aims to restore the railway in 8 to 10 years normal working condition.

Actually, the infrastructure is in bad conditions for several reasons. One important reason is that the last 15 years there was not sufficient money to maintain and repair tracks and structures. The result is that for safety reasons the maximum train speed is reduced to 40 or even 25 km/ hour. A second important reason for low speed is that signaling system was largely destroyed in 1997; actually the system works without signaling framework.

The low speed makes freight transport by rail slow and thus more expensive as necessary. The low speed also limits the capacity of single track network. As industry is beginning its revival and economy is growing, the demand for freight transport is growing and in a few years the speed should be improved so that more trains can be accommodated on the network. The passenger service is currently unattractive because of low speed and low quality of rolling stock. The ambition of AR is to buy better rolling stocks and design a better service patterns that is more suitable for future public transport in Albania. However this new trains pattern is useless as long as the maximum speed is as low as today.

As freight transport is growing and improvement of passenger service is urgent, the AR need to repair tracks and reinstall signals, to achieve a speed that is suitable for modern Albania. This requires investment in infrastructure, safety systems and rolling stock. Implementation of only one of these investments has no effects. New trains will only deliver a better service if the track is repaired and the safe running at 80 to 100 km/hour is possible.

AR passengers also need to improve the service with more frequent trains and shorter traveling times as today. In total AR needs is 300 million euro for modernizing in a period of 10 years. For infrastructure development of medium repair plan in three year is 40 million euro. It is possible to repair the network to 50 / 60 km hour.

- Trans-Balkan East-West Corridor plan includes a rail link from Qanë-e-Thanes to Kicevo. This will provide part of a link from the Adriatic to the Black Sea. In December 1998 talks were held to progress this plan, and the discussion is in process.
- A freight branch line from Lezhë to Shengijn port. This plan had been abandoned in the early 1990's but has now been re-instated as part of the expansion of Shengijn port. No dates for starting or completion of the work.
- A freight branch line from Sukth to Porto Romano port for oil.(north of Durres)
This project is in its feasibility phase
- A link from Pogradec to Florina in Greece is planned.
- Electricification - not economically viable at present.

Rails is the favorite mode of international and long distance transport as regards environmental effects, rails is important for position of Durres port, domestic freight is important for mining, metal and cement industry; while the railway is dependent on this sector. Most heavy industry is privatized and therefore it is urgent the railway follow and adapts to the new open market situation, domestic rail transport of other segments is unlikely because of short distance. International long distance transport has good chances in medium distance (Ballkan); but it depends on development of Albanian Industry and road competition. In some cases, long distance to western and north Europe is a good alternative for bulk export – import.

4.3 Sea Port policy of restructuring

The port sector in general inherited a very poor infrastructure, at the beginning of period of transition. All facilities were outdated, technology was old, and the output of the port as well was far behind the other ports in the region, making the port of Durres and other ports not competitive in the region. The port was not divided in specialized terminals and the back up infrastructure was very poor as well.

Being in this situation the biggest challenge for the port sector was to improve the overall situation of the sector through:

- Improving the legal framework. Transition from centralized into market economy required legal reforms to be carried out.
- Privatization of the services -everything in the port belonged to the government and all services were public. That called for a privatization strategy in order to make the port more flexible and more competitive.
- Improve of port infrastructure
- Adoption of new technologies
- Increase of cargo handling capacities, improve safety and security in the ports
- Protect marine environment from pollutions

Port of Durres is situated in the South western part of the city 36 km east of Tirana. Durres port Authority is a joint stock Company with 100% of shares belonging to the government. The port has 11 wharfs, road and railway access, with a water area of 67

Ha, and land area of 80 ha. Length of the quays is 2,2 km, and water depth in the basin varies from 7,5 m up to 11,5 m future projects are to increase the water depth up to 12,5 m. According to the studies, a number of projects have been implemented, contributing in such a way to the better performance of the port. We can mention hereby the project of the World Bank, PHARE program, Trade development agency and European Investment bank.

Due to these investments as well as port reforms, the overall performance of the port has been improved in a significant way. Last year the overall cargo volume was over 3,4 million of tons.

Passenger traffic is experiencing a rapid growth as well. 2007 was a very successful year. Up to now the figures are very optimistic and by the end of the year we expect a 15-17% passenger traffic growth. The construction of future passenger's terminal will contribute not only to the improvement of the conditions but at further grow of the traffic.

Containers are the future of the port. The port started with containers and in the arch of 5 years the containers handling has noted a significant growth.

Port Authority is continuously working to improve the performance of the port and the main goal is to make the port a modern and competitive one in the region, with modern technology and equipments, qualified staff and efficient services in order to play its role as the Albanian gateway of Corridor no 8.

In order to achieve that goal the port should:

- Improve legal framework
- Privatize the services in order to make the port more competitive and increase the efficiency and quality of services. The privatization of services and terminals will be performed through competition according to the concession law that was recently approved by Albanian Government,
- Construct new terminals
- Deepening the access channel in order to make it possible for bigger vessels to get access of the port
- Rehabilitate railway and road connection. That will facilitate the distribution and transition of the cargo from port to destinations.

The final objective of the port, according to the study done from the World Bank titled "Port land Use", which at the same time is considered as the Master plan of the port, is to transform the port from a tool port into a Land lord port . This means that all services and equipments are going to be private and the land will be owned by the port.

Actually the following services are private:

- Stevedoring (cargo handling services)
- Tolling service
- Pilotage
- Mooring
- Ship's provisions are provided by private providers
- Different agencies like forwarding, maritime and other similar services are private.

But in the port, there are other services which are still un-privatized but are provided by port authority. Such services are:

- Mechanical sector, (or maintenance services)
- Equipment operation

- Containers handling operation
- Training center of the port and different terminals like passenger, bulk cargo etc, The port actually is undergoing a process of privatization for the majority of abovementioned items. A foreign experienced company has been contracted by the port in order to help in preparing all tender documentation for the privatization of these sectors terminals and services

Mechanical sector is the service that is under way of privatization. The objective of this privatization is to transfer to the private sector through tendering the performance of maintenance and repair work of Durres port.

Training center of the port will be privatized as well. The purpose of the privatization is to have a port Training centre operated through Private Sector Resources who will equip the Centre and provide Management staff training.

Existing operation, as well as the construction of the new one will undergo the same process. In the port, there are other services that in fact are not under port authority but still need to be privatized, such as tug boat services. A dilemma has to be worked out in this regard because the government has not defined yet what the terms of privatization are going to be.

The port has planned to do other infrastructure investments for the construction of the new passenger terminal. This terminal will be financed through a loan to the port given by EIB and EBRD. A new multimodal containers terminal has been planned to construct in the eastern part of the port. Bulk cargo terminals like grain minerals and cement terminals (due to some very serious investment in the cement industry that are approved recently by our government).

The port is thinking to precede with these future infrastructure investments through the application of concessions and public private partnership.

5. Conclusions

The transport sector situation is problematic even in a regional point of view, but Albania still remains behind of most of Balkans states. The investments needed are beyond the state capacities. So, only for the program of road investment of about 560 million USD for 20 years is proposed to be incorporated to the National Plan of Transport. Also, the budget approved for 200 about 270 million USD of investment (about), whilst out of this, the internal financing is about 50% of the total amount of money. During these years of transition, especially after year 2000 a lot of progress is undergone in this sector, but it is a lot more to be done in terms of investments and restructuring of the sector. Privatization, restructuring, partnership with private sector are still in process of discussion. Railway sector is in high demand for restructuring. On the other hand, investment needed is too much. What shall be done: to privatize only a part of it (sector of services) or to go further? Are the concessions possibilities offered up to now the best solutions?

Public private partnership has shown in practice to be an effective tool. It also does not necessarily have to be owned by the private sector to be effective. The most important points are stringent accounting practices, a high public profile and technical know-how. It also needs to be genuinely autonomous.

In the analysis of the railway sector it is emphasized the discussion that Railway infrastructure should become an independent enterprise and should consider it proprietor of railway lines including all related assets.

Also, having into consideration the experience of other European countries, the Albanian Railway (AR) privatization should be treated carefully. This means that based on the above reasons, the concession in Albanian Railway Infrastructure is a difficult decision to be taken. Evaluating all the pros and cons each solution must to be considered properly. Albanian government is evaluating some expressions of interest in reaching a concession agreement by companies from the Czech Republic, Switzerland and Italy, but this has to be carefully evaluated because Brussels is not pushing too much for a full concession of the railways. We need to find a balance between our obligations to the European Community standards and our need to accelerate investment in the railway infrastructure. It still is needed the continuous improvement of the performance of the ports; If we analyses our main port (port of Durres) the port a modern and competitive one in the region, in order to make it able play its role as the Albanian gateway of Corridor no 8.

In order to achieve that goal the port should:

- Improve legal framework and privatize the services in order to make the port more competitive and increase the efficiency and quality of services. The privatization of services and terminals must be performed through competition according to the concession law that was recently approved by Albanian Government,
- Construct new terminals
- Deepening the access channel in order to make it possible for bigger vessels to get access of the port
- Rehabilitate railway and road connection. That will facilitate the distribution and transition of the cargo from port to destinations.

The improvement of overall performance of transport sector needs, also, *staff reduction*, because state owned companies are seen as entities with much higher social responsibilities. It has to bear in mind efficiency and social aspect as well, but it is necessary to be also a cost-benefit analysis.

In the frame of performance improvement there is a continuous need for management modernization. This has two dimensions: private management of the critical parts of this sector, and bringing more professionals in the sector. During the years of transitions, according to studies carried out, politics has interfered in appointments of people in high managerial positions and there also has not been stability of individuals in this hierarchy.

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THE USE OF SENSORY ACUITY TECHNIQUES, OF MODELING, OF ANCHORING, OF CALIBRATION, WITHIN NLP FOR IMPROVING THE ACTIVITY IN THE ORGANIZATION

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Abstract: The new technique by using the senses with a high sensitivity will also provide information of a high accuracy, but also a better use of the internal resources. Using two types of modeling - implicit and explicit - they will ensure both the use with a higher yield of the knowledge accumulated by people with very good results and who thus can optimize their behavior, on the other hand, it can be made an easier copy and transfer of knowledge, allowing the sequential transmission of the behavior, this thing does not affect the performance after the assimilation of information. By increasing the quality of the perceptions, both the sensory system and the general behavioral flexibility will be improved.

JEL classification M10, M12

Keywords: Information, accuracy, optimize, behavior, communication

Introduction

The Neuro - Linguistic Programming can be defined as "the study of human excellence and how exactly we can reproduce it (www.ionut-ciurea.com).” Genie Laborde sees the representational system as "the information is collected and encoded into the memory and then updated with perceptions (Laborde, 1984, p. 53).” NLP is a methodology that starts from the premises: "any behavior has a structure that can be learnt, modeled, modified, and taught (NLP – principles, <http://www.geniu.org/nlp/nlp-principii.htm>).”

The sensory acuity requires the optimal use of all senses. The improvement of the sensory acuity allows a better understanding of the world around us, on the one hand, and on the other hand, an increase of the interior perceptions quality. The modeling uses the differences - what makes a person different from one another in order to succeed. In other words, it aims to identify the difference that makes a difference. The question which is looking for an answer in this process is how and not why (Alder, 1996: 157).” Peter Freeth defines modeling like this: „ Modeling is a very important part of NLP. It is the basis of all techniques, because they are shaped in the minds of people who were very good at helping others to change. Despite all these, the techniques are the result of the NLP modeling process (Freeth, 2008, p. 220).”

The anchoring can be defined as "the association of a response to a stimulus triggers (Szekely, 2003, p. 184).” Robert Dilts he defined the anchor as "the anchor is any stimulus that generates a response. The major difference between the concept of an anchor and stimulus-response behavioral theories is that the establishment of an anchor requires consolidation. In this respect, the anchor is more than an extension of the holographic theory of learning and memory (Dilts, 2007, p. 182).” The calibration can be defined as: "pairing of some behavioral clues with some internal responses so that changes can be predicted, and what happens inside a person (Szekely, 2003, 185).”

NLP Encyclopedia defined calibration as "calibration is the process of learning to read the non-verbal reactions of another person during a discussion (Dilts, R., Lozier, J., D., Encyclopedia of systemic NLP and NLP new coding, <http://nlpuniversitypress.com/html/CaCom.html>)." Calibration is a way to test the status report between two persons. Thus, by the development of the sensory acuity, the person who is an observer manages to "see the other person's reactions and their influence in the communication process (Dilts, 2007, 58)."

Objective

In the sensory acuity it will be sought to increase the sensitivity of the senses, regarding the modeling it will be followed the transfer and adaptation of knowledge, behavior, patterns in people with the best performance so that these knowledge transposed to workers with average performance to ensure them improvement, and also building a more efficient behavior in terms of internal resources consumption. Regarding the anchoring, there will be sought the creation and use of anchors more often, so that the internal resources are used efficiently. Regarding the calibration it will be sought the improvement of the non-verbal language, the growth of the capacity to recognize each other based on behavioral responses, the improvement of the communication by using in it different non-verbal communication elements.

Theoretical Background

In the MCAAs technique there were used from the NLP tools: the modeling, the sensory acuity, the anchoring and calibration, because: the modeling aims to identify and transfer the behaviors that generate and distinguish the success, the anchoring and calibration help to establish strong relationships between the person and the environment, so that their own resources are used as efficiently as possible and the sensory acuity helps the three elements to use a more precise information from the environment.

The technique can be defined as "a set of methodological prescriptions used to achieve an effective action, a group of processes used to accomplish a job or obtain a determined result (Zaiț, D., Spalanzani, A., 2006, p. 138)." Modeling can be viewed as a technique, because: it aims to copy, adapt and use a behavioral model, in order to improve their results. The sensory acuity can be considered a technical because: by improving our senses, the quality of information received from the environment increases and decreases the amount of information considered redundant. The process can be defined as "the technology element that allows the direct achievement of a particular result (Zaiț, D., Spalanzani, A., 2006, p. 138)." The calibration can be regarded as a process because: it is a practical solution which based on the non - verbal reactions of the others allows a particular result within a certain process of communication. The anchoring can be regarded as a process because: it uses the relationship stimulus - response, it establishes certain relationships with environmental stimuli, it has a filtering action of the stimuli and it lets only the ones that pass a certain minimum threshold go, so the anchoring allows the achievement of a certain result reported to the person and the environment.

The Sensory Acuity is that NLP technique by which we can make fine distinctions at both the outer and inner world through the senses. The more developed the senses are, the better achieved the perceptions are.

The modeling is that NLP technique by which a behavior, a model, a performance can be copied from the person with the best results and transferred to another one in order to improve the performance of the second, this taking from the first the most effective behavioral sequences, adjusting them so as to build a more efficient behavior. There are two types of modeling: implicit and explicit modeling.

Implicit modeling - follows the transformation of the experience into new behaviors with the highest possible efficiency. Explicit Modeling - follows to divide the behavior into constituent elements so that they can be easily transferred and used by others.

Anchoring - is that NLP process which aims to create the most frequent association between a response and a stimulus trigger, at the reactions in the environment.

Calibration - is that NLP process which seeks to obtain some feedback from people who are communicated to, but it aims to a certain extent also to influence this process in order to achieve its goals.

The changes proposed for the modeling, the sensory acuity, the calibration, the anchoring, the objective setting, the flexibility, the behavioral one

Within the organization, by using the modeling, the individual performance will increase because they will be able to transfer knowledge, behaviors from people with very high performance in individuals with average performance. The anchoring and calibration will ensure the creation of strong links between the person and the environment, an optimized use of resources to achieve a certain objective, and the interpretation of certain behaviors according to the environmental changes. By increasing the perceptions which is achieved by the sensory acuity, the environmental information will be optimized, it will be reduced the amount of redundant information received from the environment, so it can be better establish the optimal conditions and behaviors in order to achieve a specific objective.

In the sensory acuity it will be sought the increase of the sensitivity of the senses, so that the perceptions a person has to be as fine as possible. This can be developed by introducing in the technique the instrument for calibration. It mainly serves for the recognition of other persons' states based on the non-verbal and behavioral reactions. Integrating this tool in the sensory acuity, it may help to improve the perceptions that a person has.

It will be sought the improvement of the method of knowledge transfer, the more efficient use of the two modeling methods, as follows:

Implicit modeling - the improvement of the behavior and their optimization by using the experience and knowledge acquired;

Explicit modeling - dividing the behavior in simpler and easier to transfer elements, so that the conduct of persons subjected to modeling to show results in a short period of time;

It will be followed the establishment of anchors and their use in many different situations, so that they require the most efficient access and use of the internal resources.

In the calibration it will be sought to improve the non-verbal communication skills that a person has, of capacity growth for the recognition of the other person's state based on the behavioral responses, improving communication by using these

elements in the communication process.

The analysis on the implications of the modeling changes, sensory acuity, calibration, anchoring, establishing objectives, flexibility, behavior

By modeling changes it will be increased both the efficiency and the effectiveness of the work factor. The anchoring and the calibration will allow a better adaptation of the person to the environment and a more efficient use of their resources in order to achieve a specific objective. Using the sensory acuity, the quality of the information collected from the environment will improve, which will reduce the time spent on analyzing the data and will increase the analysis efficiency. Using the objective targeting and the behavioral flexibility it will be optimized the decision making activity, increasingly focusing the on behavioral characteristics of each person.

The increase of the sensory sensitivity will lead to improved perceptions over the previous ones, the results materializing in obtaining more precise information and the best possible quality.

Using the modeling not as a heterogeneous method but as a homogeneous one, based on the priorities of each person will lead, in the case of implicit modeling, to the optimization of their own behavior and to a superior use of the experience gained, and for the explicit modeling it will lead, on the one hand, to a better systematization of knowledge, on the other hand it will help to transfer more easily the information so that the behaviors, models undergone to transformation become easier and easier to use, and easier to adapt to the particularities of each person.

Using the anchoring in many situations will lead to the creation of specific routines for the tasks to be performed. Since the routines have been saved, their application will be done almost automatically, and the results will improve because this tool uses mainly internal resources of the person concerned. An efficient use of the non-verbal language both in terms of its decoding and use in the communication process will lead to the elimination of many communication barriers, and it will help to decode the messages transmitted within the communication process, thus being made the best decision. Based on the components of the technique presented there can be developed a graphic representation of it in relation to the use of the major components. They are presented in Fig. 4.

Figure presenting the relations within the MCAAs technique

In this technique, the verbal and non-verbal communication along with the behaviors and the feeling of confidence generate the sensory acuity improvement specifically by combinations of factors that they have, but also by the action it exerts on a person's representational system. The sensory acuity along with the stimuli on the one hand and the cognitive processes, the positive terms and the motivational triggers on the other hand, lead to customize the modeling process so that it can operate both inwards and outwards.

In this way, the modeling process is both implicitly and explicitly. The implicit modeling aims to improve their behaviors, attitudes, values and their adjustment to the realities of the environment in real time, while the explicit modeling involves breaking the information into smaller pieces, easier to be transmitted and assimilated by the others. Breaking the initial information does not lead to losses in this process, but the process of learning and memory is faster and easier to be realized, and the results are the same whether the information is broken or not.

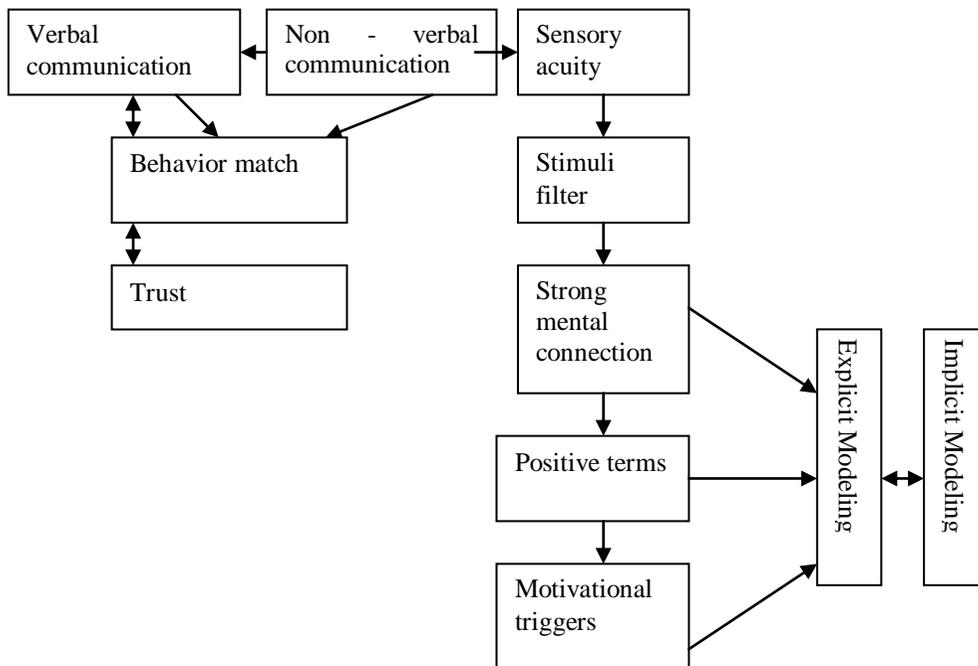


Fig. 4 The figure shows the operation of MCAAs technique

The modeling results can be improved both by breaking the transmitted information and by the messages sent using different motivational triggers, they aim to accelerate certain cognitive processes in people who pick up the information.

Conclusions

The new technique by using the senses with a high sensitivity will also provide information of a high accuracy, but also a better use of the internal resources. Using two types of modeling - implicit and explicit - they will ensure both the use with a higher yield of the knowledge accumulated by people with very good results and who thus can optimize their behavior, on the other hand, it can be made an easier copy and transfer of knowledge, allowing the sequential transmission of the behavior, this thing does not affect the performance after the assimilation of information. By applying the modeling both the individual performance will increase, but they will also provide the superior use of the resources available to the members of the organization. Thus the increasing of group performance will also increase the individual ones, leading to a higher efficiency of the organization as a whole.

By the use of anchors it will be made a strong link between the person and the work space so that the emotional bonding will lead to a superior performance. The use of non-verbal communication both within the communication process and as a tool helpful in the relation will help to eliminate many communication barriers but also to make the best decisions in the context where the non verbal language correctly decoded can provide essential information about the people who are communicated to. The

frequent use of anchors will lead to the overcoming of many barriers of communication within the organization, but also within the group.

By the improvement of the sensory acuity there will be easier to recognize the status of other people, the behavior will be improved as a result of the filtration and elimination of many unwanted information from the environment, but also by interpreting the non-verbal reactions because they will provide more accurate information about a particular situation or person.

By improving the calibration, the other people's state will be more easily recognized, both by introducing the various techniques of calibration in the sensory acuity and also by improving non-verbal communication capacity, so communication process is improved and optimized, many of the barriers of communication are outdated and many of the elements that interfere in the process of communication are eliminated.

The keywords have a very important role in improving the verbal communication of the group or organization, because they contain extremely important information that can guide the communication to one direction or another depending on the goals of the speakers. By identifying and eliminating the resistance in the process of communication it becomes more optimized and efficient.

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