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SELECTION FROM CONTENT

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How to become a researcher today?

How to become a researcher today when everything seems to be already discovered by someone else?

How to discover something new in a domain today?

Research is continuous processes to question everything for discover something new relative to the knowledge we got until now.

Even it seems unlikely it is possible if you follow a few simple rules:

1. *Be impartial and have an open mind.*
2. *Learn to obtain a solid level of knowledge regarding to the domain of research.*
3. *Question everything you learn and try to understand better.*
4. *Always relay only on solid facts.*
5. *Verify your work and the results to find and correct every mistake.*
6. *Respect the other's work.*
7. *Don't give up at first obstacle.*

If you follow these rules you may become a researcher.

But why become a researcher today when in many countries a researcher is not valued like a businessman or a politician?

That may be the real hard question

Assoc. Prof. Costel Ionascu PhD.

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THE IMPACT OF FINANCIAL STRUCTURE ON THE RETURN ON EQUITY OF ROMANIAN COMPANIES

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Abstract: This paper aims to outline the financial situation of the return on equity ofo Romanian companies according to the decision of external financing in the period 2007 - 2008, namely the period of occurrence of the economic crisis. There are 32 companies which were surveyed, which are in different fields, and are listed on Bucharest Stock Exchange. This paper's conclusions show that they are going through difficult times, and following the study their activities proved to be inefficient in economic and financial terms.

JEL classification: G32, G39

Key words: return on capital employed, return on equity, financial leverage, debts, interest rate

1. INTRODUCTION

Under current conditions, a prerequisite for the functioning of any enterprise, in the market economy, regardless of the type of ownership, profile or size, is the provision of financial resources, which enable it to procure the means to achieve its object of activity. Many researchers of the microeconomic phenomenon have debated the issue of the enterprise's financial structure in theories with greater or less degree of generality, out of the desire to seize the configuration of this concept, which has evolved over time and is a major concern of financial management.

In order to outline the impact of the financial structure on the rate of financial return of Romanian companies, which actually is the main objective of this research, we have conducted a study on a group of 32 companies listed on the Bucharest Stock Exchange, in the period between 2007 and 2008.

The paper ends with some conclusions drawn by me as a result of the research on the impact of financial structure on the rate of financial return of Romanian companies.

2. RESEARCH METHODOLOGY AND PURPOSE OF THE WORK

For the research work to be as representative as possible, I decided to choose 32 large companies in various fields of activity, listed on the Bucharest Stock Exchange, and I would do the research study it the period 2007-2008, a time which reflects both the situation prior to the financial crisis, as well as the period after the occurrence of this phenomenon.

3. DATA ANALYSIS AND RESULTS OF RESEARCH WORK

Assessing the impact of financial structure on the rate of financial return is achieved through the financial leverage effect. It has the following expression:

$$ROE = [ROCE + (ROCE - \mathrm{IR}) \times \frac{D}{E}] \times (1 - \mathrm{T}),$$

where:

$\mathrm{ROE} = \frac{\mathrm{Np}}{\mathrm{E}} \times 100$ - return on equity;
E – equity;
Np –net profit;
$\mathrm{ROCE} = \frac{\mathrm{Op}}{\mathrm{CE}} \times 100$ –return on capital employed;
CE –capital employed;
IR – interest rate;
$\mathrm{SFL} = \mathrm{ROCE} - \mathrm{IR}$ – spread of financial leverage;
$\mathrm{FL} = \frac{\mathrm{D}}{\mathrm{E}}$ - financial leverage;
D – debts;
$\mathrm{EFL} = \mathrm{SFL} \times \mathrm{FL}$ - effect of financial leverage;
T – profit tax rate.

Next, we shall calculate the size for the effect of financial leverage of the 32 companies surveyed.

To determine the return on capital employed and the return on equity, we have used the calculation relations shown above. Based on data from the financial statements, the two rates of return have been calculated. The values obtained are shown in the table below.

Table no. 1

	2007		2008	
Company	**ROCE**	**ROE**	**ROCE**	**ROE**
1. ALBZ	7,53%	3,56%	5,41%	0,66%
2. ATB	13,67%	12,76%	7,79%	4,16%
3. ARM	-10,32%	-22,88%	1,85%	-6,24%
4. ARTE	17,46%	16,72%	6,72%	1,20%
5. AZO	3,84%	16,83%	22,63%	13,90%
6. AZUR	3,64%	0,98%	1,50%	-3,74%
7. ARMT	7,35%	6,09%	5,57%	5,28%
8. BRM	12,31%	12,80%	5,48%	4,52%
9. SNO	11,57%	10,52%	26,91%	14,81%
10. COMI	9,21%	6,75%	16,49%	11,38%
11. DAFR	12,60%	11,33%	9,78%	0,63%
12. ELGS	17,70%	18,11%	30,13%	26,87%
13. EPT	-11,13%	-12,30%	25,90%	16,68%
14. TBM	7,71%	7,56%	-14,23%	-37,77%

	2007		2008	
Company	ROCE	ROE	ROCE	ROE
15. FOSB	19,91%	17,81%	25,92%	19,71%
16. ALU	33,14%	25,83%	22,59%	17,83%
17. MACO	4,62%	2,53%	4,83%	4,18%
18. ART	12,99%	9,81%	12,34%	-39,05%
19. MOIB	9,80%	5,42%	4,06%	0,48%
20. NAPO	2,51%	0,17%	4,73%	0,89%
21. NTEX	5,03%	4,14%	4,36%	3,68%
22. SNP	14,82%	13,41%	8,47%	7,47%
23. RRC	-1,35%	-15,22%	0,69%	-29,76%
24. SCTB	10,76%	5,17%	5,99%	5,85%
25. SEOL	3,09%	2,55%	2,20%	0,06%
26. EFO	5,54%	5,01%	3,20%	3,45%
27. TEL	0,18%	0,18%	0,22%	0,22%
28. TGN	14,59%	13,47%	11,30%	10,32%
29. COTR	19,97%	23,07%	6,04%	4,44%
30. UMTT	7,06%	0,62%	5,15%	-3,92%
31. TUFE	3,00%	4,01%	6,59%	5,68%
32. VNC	8,73%	7,86%	8,00%	7,00%

Source: author's calculations

In 2007, three negative rates of return on equity are recorded (ARM, EPT, RRC). The minimum value obtained is -11.13% (EPT) and the maximum is 33.14% (ALU). A similar situation is encountered in the case of return on equity, respectively three companies of the 32 surveyed recorded negative values (same as for ROCE). The minimum value is recorded by RMA, and the maximum by ALU.

In 2008, only one company had a negative ROCE (TBM) with a value of -14.23%. The maximum of this rate is achieved by ELGS (30.13%). The situation is worse for ROE, as six of the companies have a negative level (ARM, AZUR, TBM, ART, RRC, UMTT). The maximum is recorded for ELGS (26.87%). It is obvious from what was stated above, that there is a strong dependence between ROCE and ROE.

Although, apparently, it seems simple enough, determining the interest rate on loans poses quite difficult problems. This is not due to methodological considerations, but to lack of necessary information. To determine the loan interest rate, we should use a weighted average of the interest rate paid for all loans (bank loans and bonds) in the national economy, depending on each type of loan balance. Given the above limitations, we have chosen, instead of using unrealistic values of interest rate, to determine an average interest rate for loans to businesses throughout the national economy for the calendar years under review. To this end, data published by the National Bank of Romania were used regarding the interest rates, differentiated according to several criteria. The data obtained are shown in the table below.

Table no. 2

Loans	Weight	Interest rate	Average interest rate
2007			
Loans in lei	46,02%	12,22%	9,61%
Loans in euro	53,98%	7,38%	

Loans	Weight	Interest rate	Average interest rate
2008			
Loans in lei	43,61%	14,92%	10,82%
Loans in euro	**56,39%**	**7,65%**	

Source: www.bnr.ro and author's calculations

The analysis of the financial leverage effect is an important step in studying ways of optimizing the financial structure. The use of equity or borrowed capital influences economic and financial performance, in terms of cost of the employed capital used. Equity is more expensive, but there is no legal payment obligation. Borrowed capital is cheaper, but it has a fix cost, determined by the credit agreement and it can sometimes put high pressure on the company's financial results.

The financial leverage effect was determined from the relationship presented in the previous pages. It was calculated for all companies studied, for each year analyzed. Financial leverage affect allows an analysis of the correlation between the rate of financial return, the economic rate of return and the interest rate, that is studying the impact of loans on financial return.

For 2007, ROCE, ROE, IR, FL, SFL and the EFL are presented in the table below.

Table no. 3

Company	ROCE	ROE	IR	FL	SFL	EFL
1. ALBZ	7,53%	3,56%	9,61%	0,351	-2,07%	-0,73%
2. ATB	13,67%	12,76%	9,61%	0,210	4,06%	0,85%
3. ARM	-10,32%	-22,88%	9,61%	0,571	-19,93%	-11,38%
4. ARTE	17,46%	16,72%	9,61%	0,352	7,85%	2,76%
5. AZO	3,84%	16,83%	9,61%	0,307	-5,77%	-1,77%
6. AZUR	3,64%	0,98%	9,61%	0,284	-5,96%	-1,70%
7. ARMT	7,35%	6,09%	9,61%	0,042	-2,26%	-0,09%
8. BRM	12,31%	12,80%	9,61%	0,217	2,70%	0,59%
9. SNO	11,57%	10,52%	9,61%	0,000	1,96%	0,00%
10. COMI	9,21%	6,75%	9,61%	0,165	-0,40%	-0,07%
11. DAFR	12,60%	11,33%	9,61%	0,554	2,99%	1,66%
12. ELGS	17,70%	18,11%	9,61%	1,505	8,09%	12,18%
13. EPT	-11,13%	-12,30%	9,61%	0,017	-20,74%	-0,35%
14. TBM	7,71%	7,56%	9,61%	0,413	-1,89%	-0,78%
15. FOSB	19,91%	17,81%	9,61%	0,039	10,31%	0,40%
16. ALU	33,14%	25,83%	9,61%	0,030	23,54%	0,70%
17. MACO	4,62%	2,53%	9,61%	0,125	-4,99%	-0,62%
18. ART	12,99%	9,81%	9,61%	0,771	3,38%	2,61%
19. MOIB	9,80%	5,42%	9,61%	0,879	0,19%	0,17%
20. NAPO	2,51%	0,17%	9,61%	0,062	-7,10%	-0,44%
21. NTEX	5,03%	4,14%	9,61%	0,003	-4,58%	-0,02%
22. SNP	14,82%	13,41%	9,61%	0,000	5,21%	0,00%
23. RRC	-1,35%	-15,22%	9,61%	0,321	-10,96%	-3,52%
24. SCTB	10,76%	5,17%	9,61%	0,000	1,15%	0,00%
25. SEOL	3,09%	2,55%	9,61%	0,143	-6,51%	-0,93%

Company	ROCE	ROE	IR	FL	SFL	EFL
26. EFO	5,54%	5,01%	9,61%	0,007	-4,06%	-0,03%
27. TEL	0,18%	0,18%	9,61%	0,347	-9,42%	-3,27%
28. TGN	14,59%	13,47%	9,61%	0,118	4,99%	0,59%
29. COTR	19,97%	23,07%	9,61%	0,546	10,36%	5,65%
30. UMTT	7,06%	0,62%	9,61%	1,113	-2,55%	-2,84%
31. TUFE	3,00%	4,01%	9,61%	0,000	-6,60%	0,00%
32. VNC	8,73%	7,86%	9,61%	0,167	-0,87%	-0,15%

Source: author's calculations

Most of the companies studied (17) had a negative EFL in 2007. The lowest value was recorded by ARM (-11.38%) and highest value by ELGS (12.18%). Differential financial leverage had a low of -20.74% (EPT) and the maximum of 23.54% (ALU). These values, even if they were extreme, did not have a high impact on ROE, as FLwas reduced, so that EFL also had low levels. Four companies (SNO, SNP, SCTB, TUFE) had a 0 financial leverage (didn't have borrowed capital). Maximum value of the financial leverage was registered by ELGS (1505) and is an unusual value, because the capital borrowed is 1.5 times larger than the equity, which means a very large debt. Overall, financial leverage didn't have very high levels, which is a plus. 11 companies had a positive effect of financial leverage. Most of the recorded values are, however, reduced, indicating that bank loans efficiency was not very large, so that financial return could not grow due to the use of debt.

In 2008, the situation is as follows:

Table no. 4

Company	ROCE	ROE	IR	FL	SFL	EFL
1. ALBZ	5,41%	0,66%	10,82%	0,528	-5,41%	-2,85%
2. ATB	7,79%	4,16%	10,82%	0,281	-3,03%	-0,85%
3. ARM	1,85%	-6,24%	10,82%	0,600	-8,97%	-5,38%
4. ARTE	6,72%	1,20%	10,82%	0,578	-4,10%	-2,37%
5. AZO	22,63%	13,90%	10,82%	0,158	11,81%	1,86%
6. AZUR	1,50%	-3,74%	10,82%	0,445	-9,32%	-4,15%
7. ARMT	5,57%	5,28%	10,82%	0,037	-5,25%	-0,19%
8. BRM	5,48%	4,52%	10,82%	0,545	-5,34%	-2,91%
9. SNO	26,91%	14,81%	10,82%	0,062	16,09%	1,00%
10. COMI	16,49%	11,38%	10,82%	0,120	5,67%	0,68%
11. DAFR	9,78%	0,63%	10,82%	0,737	-1,04%	-0,76%
12. ELGS	30,13%	26,87%	10,82%	0,760	19,31%	14,68%
13. EPT	25,90%	16,68%	10,82%	0,020	15,08%	0,30%
14. TBM	-14,23%	-37,77%	10,82%	0,743	-25,05%	-18,62%
15. FOSB	25,92%	19,71%	10,82%	0,035	15,10%	0,53%
16. ALU	22,59%	17,83%	10,82%	0,021	11,77%	0,25%
17. MACO	4,83%	4,18%	10,82%	0,591	-5,99%	-3,54%
18. ART	12,34%	-39,05%	10,82%	0,804	1,52%	1,22%
19. MOIB	4,06%	0,48%	10,82%	0,429	-6,76%	-2,90%
20. NAPO	4,73%	0,89%	10,82%	0,326	-6,09%	-1,98%
21. NTEX	4,36%	3,68%	10,82%	0,000	-6,46%	0,00%

Company	ROCE	ROE	IR	FL	SFL	EFL
22. SNP	8,47%	7,47%	10,82%	0,131	-2,35%	-0,31%
23. RRC	0,69%	-29,76%	10,82%	0,590	-10,13%	-5,98%
24. SCTB	5,99%	5,85%	10,82%	0,060	-4,83%	-0,29%
25. SEOL	2,20%	0,06%	10,82%	0,263	-8,62%	-2,27%
26. EFO	3,20%	3,45%	10,82%	0,006	-7,62%	-0,04%
27. TEL	0,22%	0,22%	10,82%	0,383	-10,60%	-4,06%
28. TGN	11,30%	10,32%	10,82%	0,074	0,47%	0,04%
29. COTR	6,04%	4,44%	10,82%	0,132	-4,78%	-0,63%
30. UMTT	5,15%	-3,92%	10,82%	0,500	-5,67%	-2,83%
31. TUFE	6,59%	5,68%	10,82%	0,076	-4,23%	-0,32%
32. VNC	8,00%	7,00%	10,82%	0,240	-2,82%	-0,68%

Source: author's calculations

The increase of IR to 10.82% in 2008 had repercussions on EFL. This time, 23 companies had negative values. The maximum level was obtained by ELGS again (14.68%) and the minimum level by TBM (-18.62%). The same companies had extreme values for differential financial leverage, due to a higher level of financial leverage. The maximum value of the financial leverage was recorded by ART (0.804). Nine companies had a positive EFL, but the values obtained were lower than in 2007. There is a deterioration compared to 2007, which is visible in the number of companies that have a positive EFL, as well as in the levels obtained. A favorable aspect is shown in ROE, as most companies have a positive level, which means that they have managed to absorb the negative effects of using debts.

4. Conclusions

Following the study conducted, we noted the difficult time most companies have had to bear, but overall I would say that they still faced the challenges of the economic environment in which they activate in a satisfactory way.

An important role in differentiating them was probably the managerial capacity to make the best decisions in such conditions. Thus, some of them were more affected in terms of profitability, indicators registering declining values, in some cases even well below 0.

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SUSTAINABILITY OF FISCAL POLICY. CASE OF ROMANIA*

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Abstract: The Sustainability of fiscal policy is one of the key concerns of each state, especially in periods of macroeconomic imbalance. This study aims to explore the concept of sustainability of Romanian's fiscal policy. The analysis starts from the definition of sustainability of fiscal policy and its assessment methods. The work is based on the idea that a sustainable fiscal policy ensure sufficient financial resources for long-term to reduce public debt to GDP weighting and provide permits for growth. Are also considered the circumstantial influences that affecting the decisions of a fiscal nature.

JEL classification: H62, H63, O47

Key words: sustainability, fiscal policy, public debt, structural deficit, out-put gap.

INTRODUCTION

An economic crisis, besides the undesirable effects has the advantage of vulnerabilities reveal an economic system. In this situation, fiscal policies pursued by the states are important vectors designed to ensure economic recovery and also to determine the growth recovery process. These directions are followed in the growth and development strategies adopted at national level in many countries, as well as those adopted by international bodies.

That the development strategy for a country to be viable long-term protection and support should enable disadvantaged social groups, to fund education programs and health-social side, the administration must have solid political support as - political side and there must be funding for public spending programs necessary to fulfilment of economic objectives, social and eco-effectively in a financial and fiscal side.

In general terms, sustainability can be defined by the quality of economic activity to take place without exhausting the available resources without destroying the environment, so without compromising the ability to meet the needs of future generations. In macroeconomic plan is used the term sustainable development concept first launched in the ONU Conference on Environment in Stockholm in 1972 and which involves compatibility of four systems: economic, human, environmental and technological[1]. From fiscal perspective, the policy sustainability implemented by

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[1] Gheorge Pîrvu - Macroeconomie, Universitaria Publishing, Craiova 2004, pp. 125

government refers to the mix of measures that meet current financing needs of the state without compromising future funding sources. The concept of sustainability refers to the future implications of current fiscal policies, namely the opportunity that governments maintain current policies without jeopardizing the achievement of a sustained rhythm of economic growth.

If a particular fiscal policy proves to be unsustainable, should be done some changes to this policy to ensure the consistency with future budgetary needs. In the sphere of income, the state budget can be balanced in two ways: taxation and public debt. Theoretically, any value of the budget deficit is possible if the government can grow without limits the public debt, which is impossible.

To maintain a certain level of public debt can proceed to increase taxes, but this involves legislative[2] changes, takes time and generate additional income for public budgets takes place only if the level of taxation is relatively low. Otherwise, should be taken measures to reduce costs to income levels or relocation of funds in projects with higher economic and social rewarding. In present conditions must show that the space for handle in which the fiscal policy has to work towards stabilization in response to economic crisis, stimulating aggregate demand, is strictly limited to the budget deficit and public debt levels recorded at the beginning of economic crisis. In other words, the manner in which fiscal policy has been paid in the past for stabilizing load affects the way that makes this possible now and in the future. As the situation in terms of taxation is heavier, for more authorities will difficult to react appropriately in the face of asymmetric shocks.

On the other way, it is obvious that on long term is necessary a constant rate between public debt and GDP as a condition of fiscal sustainability of any as a condition of any approach to the concept of fiscal sustainability should take into account three indicators: budget deficit, growth rate and public debt. In this context we find that the large budget deficits in the period before the fiscal crisis limited in counteracting the effects of the crisis.

THE CONCEPT OF FISCAL SUSTAINABILITY

The concept of fiscal sustainability is quite disputed, referring to the implications it will have in future the fiscal policies currently adopted. The first study[3] defines the concept of sustainability through future implications of current fiscal policies or the government the opportunity to promote current policies without affecting budgetary solvency (solvency of the public sector) which is related to the condition that the present value of future primary surpluses be equal current value of public debt. As such, the long-term public debt should be null. In small accept this means that the public debt cancellation is required at some future time the primary balance to become positive. In larger accept can set a target level for the size of public debt to be achieved over a certain time horizon, this is the case today when the European Union imposes a limit of 3% budget deficit limit of annual and public debt GDP of 60%.

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[2] Tatiana Moşteanu (coordinator) – Buget şi trezorerie publică, Ediţia a III-a revizuită, University Publishing, Bucureşti 2008, pp. 41

[3] Moisă Altăr (coordinator) - Finanţe publice: introducerea unui cadru fiscal-bugetar pe termen mediu, European Institute from Romania, Bucureşti 2010, pp. 34-35

Another opinion[4] is that the sustainability of fiscal policy is often confused with the financial solvency of the government because in practice it is tested if both income and costs budget will continue to respect future trends in the past, which is not a problem of solvency. Solvency is defined by condition that the present value of future primary surpluses, which refers to revenues minus interest expenses paid on public debt, to be bigger than or equal to the current level of debt. So it is considered that the sustainability refers to the simultaneous fulfillment of solvency and liquidity, in terms of relative economic stability, and the liquidity represents the ability to pay in established time.

Public debt trajectory is determined by the macroeconomic context and the difference between nominal / real interest rate and nominal/real GDP growth rate, GDP debt decreasing by simply growth of the denominator ratio debt / GDP. If any fiscal policy proves to be unsustainable, this policy changes must be made to ensure connection with existing budget constraint on deficits.

The main problem is to determine the factors that limits the amount of public debt. Traditionally, budget balance must be equal every year but after introducing the idea of Keynes in fiscal policy changes annual vision in view of the business cycle: the budget balance should be equal at the level cycle. But this balance doesn’t appear in most cases. Deficits have been accepted in times of recession, but surpluses during the large expansion are not large enough to achieve balance, a phenomenon that leads to considerable growth of the public debt.

Consolidated budget deficit taken as a single indicator is not a right indicator for evaluation of fiscal policy. It reflects the influence of both factors, permanent and the circumstantial factors, which can hardly be referred to without a careful analysis. The permanent factors which influence the budget deficit refers to stable items of income and public spending. Revenue streams and stable expenses are those that can be obtained under normal conditions in the absence of external shocks, when the economy reaches its optimal functioning, induced by a low and stable inflation .Tax revenues tend to decline in periods of recession and grow rapidly during periods of economic expansion. Regarding costs, there is an opposite behavior, for example, spending on unemployment benefits and early retirement tend to rise in times of recession because the job losses and decline in periods of sustained economic growth , when demand for power work is increasing.

The difficulty of differentiation between permanent and temporary influences on the budget insufficient or excessive action can generate the levers of fiscal policy, with implications that expansionary or contraction of the economic cycle at inappropriate times. In addition, a small deficit or even a budget surplus can hide the existence of large imbalances in the extent to which the position is just the result of favorable circumstances, in this case of high income obtained on the background of the economic overheating. Determining the structural balance (called cyclically adjusted balance) allows separation of the temporary and permanent influences of the budget deficit over the medium term orientation and evaluation of fiscal policy.

[4] Laura Obreja Braşoveanu - Impactul politicii fiscale asupra creşterii economice, ASE Publishing, Bucureşti 2007, pp. 130

Although there are many methodologies for determining the structural balance, such as Hodrick -Prescott filter and the production functions method [5], all of this involves essentially quantification excess / deficit of demand in the economy (the output gap) and determination of income and expenditure budget sensitivity across from it, these elements allow the party determination from the observed budget balance which is attributed to the existence of economic conditions of relatively favorable or unfavorable, that calculation of the so-called cyclic components. In this context we can place the authors analyze Aura Gabriela Socolo and Dorin Măntescu defining the concept of output gap as "a measure of the cyclical position of a country, the percentage difference between actual GDP and potential GDP[6]. It also looks like a negative gap means an economy underperformed, which operates under a positive potential and a gap is the result of excess aggregate demand, which can induce inflationary pressures. The right estimation of it is very important, a level indicator or worse than the actual application can lead to inappropriate economic policies. However, we believe that the structural deficit is not a perfect measure for sustainability assessment of the fiscal position, with the increasing social costs or expenses of the substations that are appropriate demographic developments in the coming decades. Gheorghe Matei[7] believes that the current stage of economic development and social subordination stated economic strategy towards the need to ensure the welfare problem. Also the polarization of society into rich and poor is a specific phenomenon and current society between the two extreme groups of socially there is a wide range of groups classified as those in good condition or those with few opportunities. The author emphasizes the need for social policies materialized in special programs provide economic and financial measures and instruments aimed at maintaining and increasing living standards, to improve quality of life. In the same time the author believes that the social policy is a consequence and a premise of economic growth.

THE SUSTAINABILITY OF FISCAL POLICY IN TERMS OF PUBLIC DEBT

If we analyze the case of Romania in the last decade we observe that our country has relatively a low share of public debt in GDP, if we consider the maximum weight of 60% which requires the Maastricht Treaty. So at the end of 2006,the public debt represents 18,4% of GDP, while at the end of 2010 on the background of deepening international financial crisis, in Romania the level of this indicator was 37.9% of GDP, according to the Ministry of Finance[8], with perspective growth for 2011 as in October reached 38.6% level of GDP.

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[5] A. Andrei, Gh. Oprescu, M. Roman, R. M. Păun - Consideraţii privind estimarea PIB potenţial în România, paper published in the International Conference on Finance and economic stability of the financial crisis context, Bucureşti 2009, pp. 247-254

[6] A. G. Socol, D. Măntescu - Remodelarea politicii fiscale româneşti în contextul crizei economice, Theoretical and Applied Economics Magazine, Vol. XVIII(2011), No. 1 (554), pp. 112-121

[7] Gheorge Matei - Protecţia social în România, Didactic and Pedagogic Publishing, R.A. Bucureşti, 2007, pp.13-14

[8] Ministry of Public Finance - Raport privind administrarea datoriei publice guvernamentale în conformitate cu strategia de administrare a datoriei publice guvernamentale 2008-2010, Bucureşti 2010, pp. 14, available online at http://discutii.mfinante.ro/static/10/Mfp/buletin/executii/Rap_dat_pub_guv_31dec2010.pdf

According to IMF analysis[9], Romania experienced an economic boom during 2003-2008, which led to overheating and unsustainable imbalances. GDP growth was placed over 6% per year during 2003-2008, foreign direct investment and capital inflows contributed to a significant increase in consumption and investment. Strong growth in exports to EU countries reflected a process of integration of increasingly large Western European economies. The demand growth was even faster, resulting in current account deficits becoming larger, which peaked at 14% of GDP in 2007.The overheating economy and rapid capital reinforcements have complicated monetary policy, which has attracted NBR's ability to achieve the inflation target despite higher interest rates and reserve requirements. Fiscal policy has played a strong pro-cyclical role, say IMF officials, the budget deficit increased from 1% of GDP in 2005 to almost 5% of GDP by 2008 but with a sharp decline from 7,4% in 2009 and a slight increase from 6,51 in 2010.

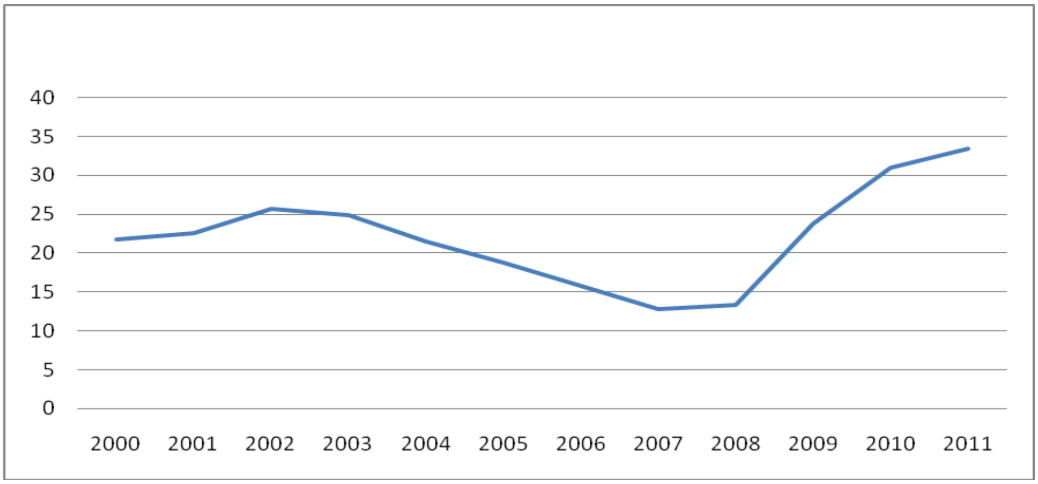
Recent analysis conducted by the IMF[10] about the evolution of public debt in Romania for 2011 forecast that was required to pay 9.2% of GDP in mature debt account. At this percentage will be added another 4.4% of GDP, the IMF estimated percentage of the budget deficit reaching a total borrowing requirement of 13.6% of GDP. This percentage is higher than that estimated one for 2012, the year in which the IMF expects a budget deficit only of 2.8%, part of the deficit target practice required by the European Union, but the payment of public debt will reach maturity will be about 0.1% from GDP higher. According to the state budget approved for 2012[11], the budget deficit is provided in the amount of 17.163,2 millions lei. This amount is reported to the GDP forecast for 2012 published by the National Commission of Prognosis [12] in value of 597.586 millions lei, then increase to 2.96%.

[9] International Monetary Fund - Solicitare de acord stand-by, întocmit de Departamentul European, 24 aprilie 2009, available online at http://www.fmi.ro/img/File/Staff%20report%20aprilie%202009_modificat-fara%20track%20changes-new.pdf

[10] International Monetary Fund - Fiscal Monitor September 2011: Adressing Fiscal Challenges to Reduce Economic Risks, available online at http://www.imf.org/external/pubs/ft/fm/2011/02/pdf/fm1102.pdf, pp. 20, 31

[11] Law no. 293/2011 concerning the state budget for year 2012, published in the M. Of. No. 914/22.12.2011

[12] National Commission for Prognosis - Prognoza pe termen mediu 2011-2015 - varianta de toamnă 2011, available online at http://www.cnp.ro/user/repository/prognoza_2011-2015_varianta_de_toamna_2011.pdf



Source: Ministry of Public Finance, http://www.mfinante.ro

Figure no. 1 Evolution of public debt in GDP of Romania

Regarding the structure of the consolidated budget in 2008-2010 we observe an increase in the share of expenditure on lower revenues. The level of the budget deficit in Romania has increased significantly in 2008-2010 from 5.4% of GDP in 2008, 7.3% of GDP in 2009 , readjust to the 6.5% in 2010. Among the causes that gave rise to this, lists: decrease of industrial production, oversized expenses in carrying out programs of investment, increase tax evasion, reducing revenues due to economic crisis, institutional factors such as legislative changes and bureaucracy, lack of political consensus.

Financing agreements concluded by the FMI and European Union forced the Romanian government to take measures for fiscal consolidation .These measures have helped to reduce the deficit and also to reduce the risk of accelerated growth since the public debt that had covered large deficits in previous years installments of public debt and refinanced at maturity. For 2012, Romania should close the excessive deficit procedure in which is from 2009, bringing the indicator below 3% of GDP.

The deadline for correcting the excessive deficit involves, according the calculations of European Commission[13], the average adjustment effort of the structural deficit of 1.75 percentage points of GDP in the next two years. The reduction of structural deficit is necessary to avoid increasing public debt, public expenditure and interest to overburden monetary policy. This will be a test for coherent mix of future policy. It will be valid if scheduled reductions of the structural deficit will be made without compromising economic growth. A endangering growth in this way does not remain without consequences in terms of inflation and financial stability.

[13] European Commission - In the EDP Commission presents reports for Lithuania, Malta, Poland and Romania, Brussels May 13, 2009

Source: Eurostat, http://epp.eurostat.ec.europa.eu

Figure no. 2 Evolution of budget deficit (% of GDP)

As we shown above circumstantial factors will be also present this time. If in crisis years the structural budget deficit was higher than cyclically adjusted deficit because the output gap was negative for the next decade the output gap will be positive. IMF estimates, starting from the constant situation in 2010, that the next decade will require some fiscal adjustment, which will require an increase in budget revenues by approximately 4.3% of GDP for public debt in GDP will not grow.

As Alberto Alesina[14] said in the sphere of fiscal policy sustainability on long term come in adverse impact of demographic aging. Considering the cost of population aging, a structural deficit even lower in the present can hide major long-term vulnerabilities. Implications for countries with high structural deficits are obvious, in conditions that in the EU level updated average cost for aging population between 2010-2060 is estimated at about 4% of GDP. Jacques Attali thinks that in the absence of sufficient demographic dynamism, can't ensure the replacement of generations, especially in Spain, Portugal, Italy, Greece and Germany (..) which will result in a depreciation of public service quality, transport and education, health and social security[15].

The analysis made by Gabriela Molanescu and Mirela Ionela Aceleanu[16] for Romania show that the social security budget since 2006 recorded large deficits in 2009 reaching the highest value about 1.5 billion euro, annual expenditure for pensions, which was the largest category of subsistence costs budget, its share in GDP to 8%, with a tendency to increase in coming years.

These increases in pension costs are determined first by the aging population and active population reduction. The authors estimated that in the year 2050, to 100 active citizens 149 will be inactive, and the population over 65 years will exceed 5

[14] Alesina, Alberto - The Political Economy of the Budget Surplus in the United States, The Journal of Economic Perspectives 14, no. 3 (2000): 3-19, on line at http://search.proquest.com/docview/212079888?accountid=15533

[15] Jacques Attali - Scurtă istorie a viitorului, Polirom Publishing, Iaşi 2007, pp. 91-92

[16] G. Molanescu, M. I. Aceleanu - Consecinţele deficitului bugetar în România în contextul crizei actuale. Implicaţii asupra pieţei muncii, Theoretical and Applied Economics Magazine, vol. XVIII(2011), No2(555), pp 58-74

million, as compared to 3 million as is currently, effects on long-term will be labor shortages and insufficient economic resources necessary to support elderly people.

Despite increasing public debt, consider that Romania has achieved sustained economic growth, because the loans used to cover deficits contracts especially not for economic development itself. Because a good part of contracted loans were carrying of variables interest, as their rate increases, the amounts due by Romania with this title were also increasing. To pay the debs and due rates, Romania was forced to contract new loans. So, a significant part of public debt is a direct result of current refinance of the public debt from previous years.

To the growth of public debt contributed also the committed mistakes in guiding economic policy and foreign financial. In some cases it's about the utilization of borrowed resources to finance unproductive or important objects of budget deficits and achieve goals with a low economic efficiency and that exogenous factors have played a crucial role in Romanian increasing debt and the international context provide a favorable action of exogenous factors and print the borrowing problem of the public administration a pronounced political character.

SUSTAINABILITY OF FISCAL POLICY IN TERMS OF GROWTH IN LIVING STANDARDS

When we talk about policy coherence, we should consider a target against which to evaluate. In our specific case, the major objective is the sustainable convergence to EU average living standards. The analysis of living through the GDP / resident will lead us to conclusion that the level of living has increased in periods in which policies were rather consistent. For example, to analyze the comparison of living standards growth and structural budget deficits on economic growth during 2000-2008.

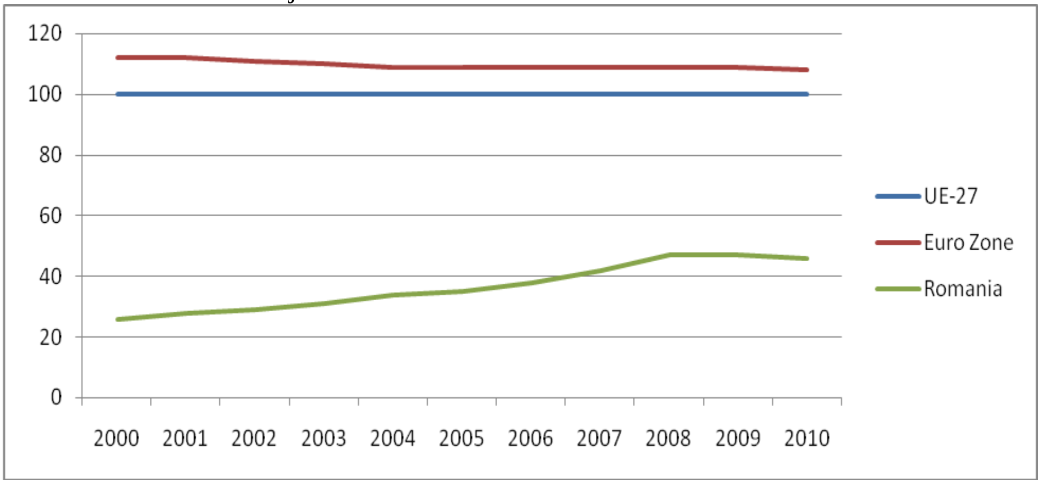
Between 2000 and 2003 GDP / resident compared to EU-27 increased from 26% to 31% which means an average advance of 1.67% per year, according to Eurostat[17] statistics. This growth was achieved simultaneously with a reduction in the structural budget deficit from 1.6% of GDP in 2000 to 1.2% of GDP in 2003.Based on these data we conclude that it was a healthy growth in 2006, GDP / capita reaching to 38% of the EU-27.Structural deficit in the same period increased on average by almost one percentage point per year, reaching 4.1% of GDP in 2006. In these circumstances, we believe that between 2004 and 2006 growth in living standards was accompanied by accumulation of structural problems in public sector. Inconsistency is followed by lower living standards and the need for coherent policies to improve living standards.

Structural problems have worsened in 2007-2008, when GDP / capita in Romania increased to 47% of the EU-27, an average of 5 percentage points per year, but in the context of severe damage to the structural budget deficit of 8.5 percent of GDP in 2008.

Let examine now in parallel, as we did above, the recession and fiscal adjustment measures and to analyze the implications for living standards and the structural deficit. Only in 2009 GDP / capita expressed as a percentage of average EU-27 remained constant, however structural deficit was reduced with only 0.4 percentage points from 8.2% of GDP in 2008 to 7.8% of GDP .In other words, the recession led to

[17] Eurostat - GDP per capita in purchasing power standard, available online at http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

lower GDP / capita compared to EU-27 average, but the structural deficit remains large, without the same line adjustment.



Source: Eurostat, http://epp.eurostat.ec.europa.eu

Figure no. 3 Evolution of GDP / capita expressed in purchasing power standard

Reported to the evolution of GDP / capita in the euro zone, Romania had a favorable evolution during the crisis but the gap is still very high. If in 2000 this indicator stood at 112% of the EU in the Euro Area and only 26% for Romania, in 2010 was a decrease from 108% in the euro area increased to 46% for Romania. This evolution can be attributed to economic development efforts made by Romania in the last decade.

However this rate of growth is unsustainable because the overuse of resources can't be maintained for long term. Increasing domestic demand based on credit and not on raising productivity has shown the limits. Even if economic growth will register positive values in coming years, the convergence by the developed economics of Europe will be made during a period of time. Globalization has made possible this favorable evolution but also the globalization made vulnerable the emerging economies, making them dependent on external financing. Although there are prerequisites for economic growth above 3% average annual this growth it must consider a restructured economy. Romania's economy which relied on agriculture and construction sectors proved that is vulnerable. The growth rate of GDP / capita left the false impression that a policy of fiscal relaxation is always timely. Fiscal adjustments occur sooner or later and improve living standards can be stopped suddenly by economic shocks such as financial crises, crises of raw materials or energy.

CONCLUSIONS

The eruption of the crisis has changed the balance of risks from external vulnerability to greater concerns about fiscal sustainability. The main challenge in the medium is to be able to ensure fiscal sustainability without threatening economic growth of the prospects .The question is if the policy mix applied in the period 2009-2022 is consistent and compatible with the new challenge, are effective restrictive measures of wages in the budget and the increase in VAT to reduce the difference. In the medium term, it is meant to lead to resumption of sustainable growth in living standards but everything depends on the government capacity to manage public funds. But in short term, low living standards is inevitable. Would be desirable to decrease the standard of living will not generate a new bout of populism. Political discourse can remove lot of the economic fundamentals that should stay at the basis of any macroeconomic decision. The problem is that, in the case, were are not allowed increases in public debt or budget deficits to stimulate economic recovery, the only options are to reduce spending or increase taxes, measures that reduce the economic growth. These applied measures in the low point of economic cycle represent pro-cyclical measures involving money out of circulation just when they are needed and have the effect of short-term to increase the unemployment. Therefore have to consider the gap that manifests in getting the effects behind reform decisions. Reforms must be implemented gradually, not by massive cost cuts because the lower income and consumption lead to the economic slowdown, decreasing GDP and budget revenues, increasing more economic deficits.

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13.	International Monetary Fund	http://www.imf.org/external/index.htm
14.	National Commission for Prognosis	http://www.cnp.ro/
15.	Ministry of Public Finance	http://www.mfinante.ro/acasa.html?method=inceput&pagina=acasa

ACCOUNTING TREATMENTS REGARDING COSTS AND INCOME OF NON-PATRIMONIAL ENTITIES

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Abstract: The aim of non-profit entities is not that of obtaining economic benefits or advantages but that of mainly carrying on charity actions, respectively of helping certain social categories of people. In specialty literature we find rather scarce articles referring to accounting treatments of associations, foundations etc. Our goal is to render essential aspects for non-profit entities from the point of view of their features and peculiarities regarding accounting registration of transactions and events.

JEL classification: M41, M21

Key words: expenses; accounting treatment; revenue; account; non-patrimonial entities

1. INTRODUCTION

The Romanian constitution points out that associations and other legal persons, non-profit entities or not, are bound to organize and manage their accounting, meaning financial accounting and, when needed, their management accounting.

Managing the accounting of entities is defined by Accountancy Law no. 82/1991 republished:

- Legal persons should manage bookkeeping usually in distinct departments managed by the Chief Financial Officer, Chief Accountant or any other person authorized in such a position. These persons should have university economic studies;
- Bookkeeping can be managed on a contract basis with entities in the accounting field, contracts can be signed with natural or legal persons authorized according to GD no 65/1994 regarding organization of accounting expertise and authorized accountants.

The responsibility for improper application of accounting laws and regulations rests with the Chief Financial Officer, Chief Accountant or any other person authorized to fulfill this position, <u>together with all subordinated personnel</u>. In case bookkeeping is managed on a contract basis of providing services between the entity and a natural or legal person authorized by the Law, member of Association of Chartered Certified Accountants from Romania, the responsibility for accounting management is theirs according to the law and contractual clauses.

Associations, foundations, politic parties, patronages, trade unions, religious cults carrying on non-profit activities are bound to organize and manage bookkeeping by double entry and to edit annual financial reports by applying the regulations of Order no 1969/2007 regarding approval of accounting regulations for non-profit legal persons, published in The Official Gazette of Romania no 846/ 2007. These regulations establish the basic accounting principles and rules, the shape and the contents of annual financial reports, the chart of accounts and the methodological norms of using it.

The goal of Order no. 1969/2007 regarding approval of accounting regulations for non-profit legal persons: synchronizing the Chart of Accounts of non-profit legal persons with the Charts of Accounts of economical agents.

2. OBJECTIVES

The goal of this paper is to emphasize part of accounting treatments specific to non-profit entities regarding income and costs. More than that, we display the procedure of establishing tax rates for non-profit entities by specific calculations as compared to procedures used in calculating profit tax of economical agents.

3. METHODOLOGY

The summary of the research methodology used in this paper is the following:

- The method of research of regulations and other documents that imply analysis from the perspective of some parameters established in concordance with the goal and the objective of our research. In our paper there have been studied a few laws, for example Order no. 1969/2007 regarding approval of accounting regulations for non-profit legal persons, Ordinance 26/2000 regarding associations and foundations etc.;
- The study case method though which a series of activities carried by non-profit entities were analyzed so that they could be registered in the accounting system.

4. GENERAL INFORMATION ABOUT ASSOCIATIONS, FOUNDATIONS AND FEDERATIONS

Legal persons can be classified regarding the nature of their activity as following:

- **Profit legal entities (patrimonial)** that have as objective gaining profit in general. In this category we include trading companies, public operators, banking companies etc.;
- **Non-profit legal entities (non-patrimonial)** that do not have as objective gaining profit. In this category we include: associations, foundations, federations etc.

Non-profit legal entities are not keen on distributing the benefits between the members of the organization but on achieving their goal.

Definition: According to the Dictionary an association is an organized body of people created to achieve a common interest and organized according to a statute (Academia Română, Institutul de lingvistică „Iorgu Iordan”, *Dicţionarul explicativ al limbii române – ediţia a II-a,* Editura Univers Enciclopedic, Bucureşti, 1998, p. 65).

According to the Romanian Constitution an association is the legal entity set up by three or more persons who, according to an agreement, put together without the right to restitution material contribution, knowledge or their contribution to the work for achieving activities of general or community interest (Ordinance 26/2000 on associations and foundations).

Definition: foundation is defined by the Romanian constitution as: the legal entity set up by one or more persons who, based on a legal act between living or because of death, is an affected property, permanently and irrevocably, to achieve a goal interest or, as appropriate, community (Ordinance 26/2000 on associations and foundations).

Two or more associations or foundations may form a federation. Associations and foundations that form a federation keep their own legal personality including their own patrimony.

Associations, foundations and federations are subject to the following regulations:

- *Law no. 21/1924* regarding legal persons (associations and foundations), published in *The Official Gazette of Romania* no. 27/1924;
- *Ordinance no. 26/2000* regarding associations and foundations, published in *The Official Gazette of Romania* no. 39/2000, law that abrogates law no. 27/1924.

Note: ***Laws*** *are elaborated by Parliament on the basis of The Constitution and they regulate the main majority of reports of administrative nature, organization and operation of main administrative authorities, their competencies, operation of contentious administrative matters, of local administration, of Government etc.*

Ordinances and Government decisions*. Ordinances are issued on the basis of an enabling law of the Government by the Parliament and are reserved to be brought under regulation by ordinary law only. The emergency ordinance is an act of the Government that can be issued only in special cases, Government Decisions (Regulations), represent the majority of Government activities.*

An association or a foundation can be admitted by the Government of Romania as having a public utility if all the bellow conditions are met, cumulatively:

- Its activity serves general or collective interests;
- It operates for at least 3 years;
- Presents an activity report that proves significant previous activities through carrying programs and project specific to its goal. This report encloses annual financial situations and budgets of income and costs for the past 3 years previous to the date the request for recognition of public utility has been made;
- The value of the patrimonial assets on each of the past 3 years is at least equal to the value of the initial patrimony.

Recognition of public utility gives the association or foundation the following rights and obligations:

- The right of using public property assets free of charge;
- The right to mention in all issuing documents that the association or foundation is recognized as having public utility;
- The obligation of keeping at least the level of activity and performance that determined recognition;
- The obligation of communicating to competent administrative authorities any changes of the articles and memorandum of association as well as activity reports and annual financial reports;
- The obligation of publishing within 3 months of the end of calendar year activity reports and annual financial reports in *The Official Gazette of Romania* as well as in *The National Registry of Non-profit Legal Entities*.

Patrimony is the element that makes the fundamental distinction between association and foundations. Consequently, for a foundation the main element through which their purpose is achieved is the patrimony, while an association aims at meeting the objectives set out by work associates, as a general rule voluntary.

5. ACCOUNTING TREATMENTS REGARDING NON-PROFIT LEGAL ENTITIES

Non-profit legal entities can carry both non-profit activities and economic activities. In this way The Chart of Accounts for non-profit legal entities is structured on three types of activities.

The Chart of Accounts for non-profit legal entities has certain characteristics, namely:

- The result for the year and the result carried forward are presented depending on the nature of work carried out by the association and foundation: non-profit activities, activities with specific destination and economic activities;
- The fixed assets accounts, the accounts with banks in the foreign-exchange and house foreign exchange swaps are detailed on analytical accounts regarding non-profit activities and economic activities;
- Within the groups of accounts of revenue there is a group that has no correspondence in class 6, group 79 **Revenue with special destination**

Practical application. The sum of 250 lei is collected, representing 2% of the income tax due from natural persons, as a result of option expression of some natural persons to transfer this money to the account of the sports club.

5121 Bank accounts in lei	=	7331 Income from donations	250

Practical application. A non-profit organization achieves the following income in year N:

- Income from contributions of members = 5.000 lei;
- Income from donations and sponsorships = 15.000 lei;
- Income from EU non-reimbursable funding = 30.000 lei;
- Income from commercial activities = 10.000 lei.

Accordingly to this income it performs the following expenses:

- Expenses related to non-profit activity = 48.000 lei;
- Expenses related commercial activity = 7.000 lei.

Determine the profit tax due from this non-profit organization for activities carried out in the course of the year N, by knowing the exchange rate of 3,65 lei/euro.

Solution:

For income from membership fees, donations and sponsorship and European Union non-reimbursable funding the non –profit organization is exempt from tax on profit.

Non-profit organizations are exempt from tax on profit for income from economic activities that does not exceed 15.000 Euros, but not more than 10% of other income exempt from tax on profit. So, the limit of the income exempt from economic activities is the sum of minimum 15.000 Euros and 10% of other income exempt from tax on profit.

$$15.000 \text{ euro x } 3,65 \text{ lei/euro} = 54.750 \text{ lei}$$
$$10\% \text{ x } (5.000 + 15.000 + 30.000) = 5.000 \text{ lei}$$

It appears that income from economic activities is exempt to a limit of 5.000 lei, for the rest of 5.000 lei tax on profit is due.

The non –profit organization tax will be due to the part of the profit which corresponds to amount of taxable income.

The profit of the economic activities = E. in. – E. ex. = 10.000 – 7.000 = 3.000 lei

E. in. – economic income, E. ex. – economic expenses

The profit for the taxable income = 3.000 x (5.000/10.000) = 1.500 lei

Tax on profit = 16% * 1.500 = 240 lei

Practical application. A kindergarten carrying on non-profit activities (child care is supported by funds other than parents' contributions) performs the following actions:
- purchase of food from suppliers in amount of 5.000 lei;
- putting for consumption of purchased food;
- purchase of toys in amount of 700 lei;
- putting for consumption of purchased toys on the basis of consumption coupon;
- invoice is received from the entity that provides transport for the children of 700 lei;

➢ purchase of food from suppliers in amount of 5.000 lei:

3028 Other consumables	=	401 Suppliers	5.000

➢ putting for consumption of purchased food:

6028 Expenses regarding other consumables	=	3028 Other consumables	5.000

➢ purchase of toys in amount of 700 lei:

303 Materials to the nature of the objects in the inventory	=	401 Suppliers	700

➢ putting for consumption of purchased toys on the basis of consumption coupon:

603 Expenses regarding materials to the nature of the objects in the inventory	=	303 Materials to the nature of the objects in the inventory	700

➢ invoice is received from the entity that provides transport for the children of 700 lei:

624 Expenses regarding transportation of assets and personnel	=	401 Suppliers	700

Practical application. Free raw materials of 7.000 lei are received.

301 Raw materials	=	7332 Income from sums or goods received from sponsorship	7.000

Indication (Order 1969/2007): Account 733 "Income from sums or goods received from sponsorship" shall be credited by the flow of accounts: 301 "Raw materials"

- with the value for the price of registration of the raw materials received free of charge.

Practical application. The Friends of the Forrest Association collects the amount of 300 Euros, exchange rate 4,2 lei/ Euro from an Austrian member, representing monthly levy.

5124.01 Available in foreign currency on non-patrimonial activities	=	7311 Income from members levy and subscription fees	1.260

5. CONCLUSIONS

From a legal point of view there are a series of similarities but especially differences between associations, foundations and private entities. The differences occur right from the articles of association, the institutions where establishing documents are submitted etc. generally associations may develop both economic activities and non-economic activities.

In specialty literature we can find terms as: non-profit entities, non-lucrative entities to make reference to non-patrimonial entities.

Non-patrimonial entities use a different Plan of Accounts as compared to the Plan of Accounts used by commercial companies. The two Plans of Accounts are rather similar but with peculiarities adapted to each type of entity.

The Plan of Accounts for non-lucrative entities is approved by Order 1969/2007. Part of the characteristics of The Plan of Accounts for non-patrimonial entities are:

- the result of the year and the reported result are presented according to the nature of activities carried out by the association and foundation: non-profit activities, special purpose activities and economic activities;
- in the class 7 Income accounts there is a group that has no correspondence in class 6, respectively group 79 "Income with special destination."

Regarding the activities carried out by non-profit entities, they record revenues and expenditures. The most part is similar from a theoretical point of view with income and expenses of a commercial company. But from a practical point of view there are some differences. The economic outcome, mainly the profit achieved from economic activities is taxed differently as compared to the result achieved by commercial companies. Part of the economic income achieved by nonprofit entities is exempt from tax, income different from the one provided by the Tax code for commercial companies.

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THE BANK LOANS IMPORTANCE, INFORMATION ASYMMETRY AND THE IMPACT OF FINANCIAL AND ECONOMIC CRISIS ON CORPORATE FINANCING

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Abstract: Bank loans have an increasing role for corporate activities. In most countries, bank loans are the main source of financing for small and medium-sized enterprises. Even though the role of banks decreased in the last years, banks take advantage of a privileged position which allows them to provide liquidity cheaply than other intermediaries. The activity of bank lending is often influenced by the adverse selection due to the fact that corporate clients are often reluctant, in providing the complete and real information about them. As a result the information asymmetry may have a negative impact both on banks and companies. The most important effects of the financial and economic crisis on the companies are the drastic drop in demand for goods and services and a tightening in credit terms, which are severely affecting their cash flows. Also, companies face financing constraints which often amplify the effects of crisis.

JEL classification: G21, E51, G01, G38

Key words: bank loans, lending, financial and economic crisis, information asymmetry, credit constraints

1. INTRODUCTION

Bank loans have an increasing role for corporate activities in any country especially for economies where banking loan market is the traditional source of capital financing, for emerging economies but also for those with developed capital markets. However, it should be taken into consideration that the specific of bank lending it is somehow different for small and medium enterprises than the large companies. Furthermore there is large evidence that bank loans market is influenced by information asymmetry and expresses some constraints for the borrowers.

The first category of companies, which is the small and medium sized enterprises, represent the backbone of all economies and are a key source of economic growth, dynamism and flexibility in advanced industrialized countries, as well as in emerging and developing economies constitute the dominant form of business organization, accounting for over 95% and up to 99% of enterprises depending on the country. (O.E.C.D., 2006, pp.1)

Small and medium enterprises and also large companies face the same issue in their early days – finding the money to enable them to start and build up the business and test their product or service. On the other hand even though large companies have a better access to capital markets than the small and medium sized ones evidences show that debt is the major source of external financing for large corporations. In 2007, corporate bonds and syndicated credits made up 94% of all public funds raised in the

European capital markets, while public equity issuance accounted for only 6%. (Altunbaş et al, 2010, pp. 1) However large companies have a larger access to bond markets so that bonds are an alternative to bank loans more important for large companies than for smaller ones. Nevertheless we should take into considerations that an increasing number of financial transactions have moved from banks to the securities markets.

2. THE IMPORTANCE OF BANK LOANS FOR CORPORATE FINANCING

In most countries, commercial banks are the main source of finance for small and medium-sized enterprises so the first condition that should be accomplished by them to be able to develop is to have access to bank loans. (OECD, 2006, pp.4)

There is a strong relationship between corporate financing and the sources of funds, especially bank loans which emphasizes the need of funds being materialized into financing gap. The overall small and medium-sized enterprises financing gap is particularly pressing in non-OECD countries, since the bulk of them report a widespread shortage of financing for all categories of small and medium-sized enterprises. Even though small and medium-sized enterprises account for a large share of enterprises, and represent potential employment and economic growth in emerging economies, they receive a very low share of credit. (OECD, 2006, pag. 4) This proves that many enterprises, not only the small and medium-sized ones face with financing constraints, which it will be further presented.

A feature of large companies is that they use a financing system that can be slightly different than small and medium-sized enterprises. Federal Reserves Bank of New York shows that many financial transactions have moved in the last decades from banks to capital markets. This means that all types of debt instruments become more marketable, this process being known as securitization. This shift toward the financial markets and nontraditional financial institutions has significantly reduced the role of banks in providing loans. (Saidenberg, Strahan, 1999, pp 2) Nowadays the monetary and financial markets have changed by important processes such as securitization which is one of the most important but not the only one. The banking market but also the financial markets are influenced by another four important processes which are: deregulation/regulation, financial innovation globalization and advances in technology. (Popescu, J, 2009, pp 7-8).

Even though the role of banks decreased in the last years they take advantage of a privileged position which allows them to provide liquidity cheaply than other intermediaries. This advantage comes from the fact that they combine committed lending with deposit-taking services. These services can be provided most efficiently within a single organization: first, most committed lending is conducted by banks; second, banks with a greater number of demand deposits provide more liquidity insurance through lines of credit and credit commitments than do other financial institutions. (Saidenberg, Strahan, 1999, pag. 4) If deposit withdrawals and commitment are imperfectly correlated, the two activities shares the costs of cash they hold, maintaining the buffer stock of liquid assets they need at lower costs.(Kashyap et al., 2002, pp 67) A key aspect arises in the case of large companies whose financing needs exceeds the possibilities of a single bank, in these case that company is financed by several banks. Because of the fact that large companies are able to obtain funds from the bond market an important aspect is to compare the financing options used by those companies. It is also important that a certain company will chose a certain source of financing that is more appropriate to its features. A recent study showed that large companies, with greater financial leverage, higher profits and liquidation values tend to choose syndicated loans. In contrast, firms with more short-term debt and those perceived by markets as having more growth opportunities favor financing through corporate bonds. Syndicated loans are the preferred instrument for very large profitable companies are that have less growth opportunities. (Altunbaş et al. 2010, pp. 455)

3. INFORMATION ASYMMETRY IN THE LENDING ACTIVITIES AND ITS CONSEQUENCES FOR BANKS AND COMPANIES

The concept of information asymmetry assumes that at least one party to a transaction has relevant information whereas the other does not.. The two main forms of information asymmetry are adverse selection and moral hazard. These forms are studied in the context of principal-agent problems. In adverse selection models, the ignorant party lacks information while negotiating an agreement such as a transaction contract, whereas in moral hazard the ignorant party lacks information about performance of the agreed-upon transaction or lacks the ability to retaliate for a breach of the agreement. (Marinescu, et. al, 2009 pag. 476).

The activity of bank lending is often influenced by the adverse selection due to the fact that companies are often reluctant, in providing the complete and real information. These attitudes conduct to the appearance of two adverse effects: it increase the credit risk the bank faces but this situation is having also a negative impact on the client because the fact that bank includes the client in a wrong category of risk which often increases the cost of financing for the companies reluctant to provide all necessary information. Generally companies are trying to influence the information requested by the banks referring to the value of fixed assets, the value of current assets, the profitability and indicators referring to liquidity and indebtedness.

This information is taken from the last month ended trial balance, the last balance sheet, the profit and loss account but also from some certain financial and commercial documents depending of the lending policy of the bank. These documents refers to annual report the profit and loss statement, the cash-flow forecast for the lending period and the budget of incomes and expenditures corresponding to the. Also it can be required the situation of stock and expenses for which the bank loan is required, a status of deliveries for the products subjects to the bank credit, a list of collaterals proposed to the bank to guarantee for the credit requested and the evaluation of these collaterals, a business plan. Nevertheless the companies try to improve the qualifications given by the bank institution trying to “adjust” some facts and values in the documents provided. Even though it is difficult to modify the real values the possibilities are limited but not eliminated. (Marinescu, et. al. pag 479).

We express the opinion that a good idea for banks to remove some of the possibilities of companies’ representants to manipulate the values in the financial documents is to request an external financial audit made by the audit companies even for companies that do not legally request an audit certification.

Because the fact that the customer wants to maximize the credit worthiness, the sum of money that the company is able to receive and to minimize the number of collaterals some authors emphasize that also there are some methods to improve the financial and commercial aspects presented above, these methods being considered legal. These methods are used in order to obtain a “better image” , the potential debtor cold do this by tracking four goals seen as important by the credit officer of a bank: 1 .

the value of fixed assets 2. the value of current assets 3. the profit and the loss account and 4. the balance sheet. (Marinescu, et. al., pag 479).

These methods that could be used by the companies have a negative impact on lending activity but banks can avoid these situations by ensuring a proper training and qualifications and selecting the most judicious customers. Furthermore we believe that a good idea for the entire banking system may be the creation of a common database with the values of the elements contained in the financial documents for the periods taken into consideration for the credits granted in order to have a more accurate "image" of their customers taken into consideration, comparing the values taken from recent documents in the case of several banks' customers. In this way, the possibility of certain clients to manipulate the real facts and values, are decreasing very much.

Also we believe that the aspects regarding the possibility to obtain bank loans in better conditions are amplified in contexts of a Financial and Economic crisis which is characterized by a lack of liquidity in all the markets. Nevertheless it was shown that even when the macroeconomic conditions are relatively proper there is some certain financing constraint that determines companies to have a poor access to financing sources, especially bank loans.

4. IMPACT OF FINANCIAL AND ECONOMIC CRISIS ON THE BANKING LOAN MARKET AND CORPORATE FINANCING

Access to financing continues to be one of the most significant challenges for the creation, survival and growth of companies especially innovative ones. The problem is strongly exacerbated by the financial and economic crisis as companies have suffered a double shock: a drastic drop in demand for goods and services and a tightening in credit terms, which are severely affecting their cash flows. (OECD, 2009, pp.2) Moreover the cost of borrowed capital becomes more expensive.

The aspects regarding the financial and economic crises revealed serious deficiencies in the global financial system and regulatory framework. (Marinescu et al., pag 476). As a consequence, the confidence in the financial system has decreased; many banks were unable to obtain the necessary short term credits and are often made in impossibility of payment.

In order to alleviate the negative effects of the crisis, governments are responding generally by three types of measures aimed at: a) supporting sales and preventing depletion of working capital; b) enhancing access to liquidity; c) helping to maintain their investment level. (OECD, 2009, pag. 2)

We consider that these aspects apply both small and medium-sized enterprises but also to large companies. Unlike large companies, the small and medium sized are more affected by crises at least for the following reasons:

- They are already small so it is more difficult for them to downsize.
- they are individually less diversified in their economic activities;
- they have a weaker financial structure;
- they have a lower or no credit rating;
- they are heavily dependent on credit and
- they have fewer financing options.

Both small and medium-sized are facing two categories of stress factors which are: a) increased payment delays on receivables which added – together with an increase in inventories – result in an endemic shortage of working capital and decrease in liquidity and b) an increase in reported defaults, insolvencies and bankruptcies.

The first stress factor shows that extended payment delays receivables are leading to a depletion of working capital in many countries. The other stress factor shows that increased insolvency rates appear to confirm small and medium-sized enterprises inability to obtain short-term financing. This consequence is the result of tightening of credit conditions by banks, this feature also being the result to the bank ability or inability to access capital, the banks' liquidity positions, and expectations regarding the recession and higher risk on collateral.

Another consequence of crisis is that the stagnation in lending is true even of banks in countries where governments have strengthened banks' balance sheets to allow them to grant additional credit to small and medium-sized enterprises and/or where credit guarantee schemes exist. Even though there were made real efforts to accelerate the lending activities in many cases the results were not as good as they were expected.

Due to the fact that enterprises access to credit is decreasing, small and medium-sized enterprises are using alternative sources of finance such as mobilization of reserves, self-financing and factoring.

Nevertheless another consequence of crisis is the fact that global venture capital fundraising slowed down between 2007 si 2008. (OECD, 2009, pp. 6-8)

Moreover companies also face different obstacles (constraints) when they try to access financing which can be found also in a growing economy, but these are generally amplified by the effects of crisis. These constraints refer to an incomplete products and services, regulatory rigidities or gaps in the legal framework, lack of information on both the bank's and the company side. (OECD, 2006, pp.3).

A recent research highlights other financing constraints, due to the process of bank deregulation and the consolidation of the banking sector that produced a geographical concentration of decision and increased the functional distance of banking from local communities that hardened the firm's financing constraints. The intense bank consolidation process in the last twenty years has not made retail credit markets fully integrated even at the country level. On the contrary, it has made access to credit for informationally opaque companies in peripheral regions still harder.(Alessandrini, et al, 2009, pag. 302)

5. Conclusions

Bank loans have an increasing role for corporate activities especially for economies where monetary market is the traditional source of capital financing, for emerging economies but also for those with developed capital markets. In most countries, commercial banks are the main source of finance for small and medium-sized enterprises. On the other hand, large companies financing system is changing because of certain features such as securitization, regulation/regulation, financial innovation globalization and advances in technology. Even though the role of banks decreased in the last years banks take advantage of a privileged position which allows them to provide liquidity cheaply than other intermediaries.

The activity of bank lending is often influenced by the adverse selection due to the fact that companies often are reluctant, in providing the complete and real information about them. As a result the information asymmetry may have a negative impact both on banks and companies. The most important effects of the financial and economic crisis on the companies are the drastic drop in demand for goods and services and a tightening in credit terms, which are severely affecting their cash flows. Finally companies also face credit constraints which often amplify the effects of crisis referring to factors such as adverse effects of bank deregulation and consolidation of banking sector but also to aspects such as incomplete products and services, regulatory rigidities and the lack of information.

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STRUCTURAL FUNDS' USE BY THE SME SECTOR IN ROMANIA – STRUCTURAL EXPECTATIONS, DIFFICULTIES AND IMPACTS*

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Abstract: While the process of strategic planning at the level of the European Union and the Member States incorporates a strong support component for the creation of growth and jobs in the SME sector, and the financial setup is put in place both through EU and national instruments, it is relevant to understand the extent to which these policies and financial instruments can ensure a genuine, sustainable effect on the activity of microenterprises. The paper is divided in four parts.

The first part presents the facets of the Romanian National Strategic Reference Framework which refer directly and indirectly to the policy measures and financial support for the SMEs. **The second part** refers to the technical aspects (mechanisms, results, impacts) associated to project financing for SMEs, both in the implementation period and in the phase of operating the investment. **The third part** refers to the financial aspects (sources of financing and cash flow management) incurred by the implementation and operation of projects addressing the SMEs sector. **The fourth part** collects main conclusions on the issues discussed and groups them around some topics of discussion: the actual need for structural funds in the SMEs sector versus the opportunity hunting; the short term effects versus the long term impact; the risks versus the benefits of resorting to structural funds; the structural versus volatile effect at macroeconomic level in terms of economic growth and job creation.

JEL classification: M21, H81

Key words: Structural Funds, SMEs, Sustainability, Impact

1. INTRODUCTION

Absorption of structural and cohesion funds is an important priority of the Romanian Government. A substantial allocation of funds from the European Union needs to be optimally exploited, representing a key resource for developing the Romanian economy and society in the short, medium and long run.

Achieving an absorption level of at least 90% of the allocation available to Romania requires a significant and permanent effort, as well as the functioning of a complex, modern and transparent system to ensure the efficient use of public funds, which involves a process of adaptation of the legal, institutional and procedural mechanisms, as well as a profound change of mentality.

However, structural funds absorption should not be considered an objective per se, but a tool to ensure economic and social development and progress. A realistic

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assessment of the absorption and use of structural funds requires an indepth analysis of possible collateral effects induced.

2. THE LEGAL AND STRATEGIC FRAMEWORK

Articles 158-162 of the Treaty establishing the European Communities stated that the Union should promote an overall harmonious development and strengthen economic and social cohesion by reducing development disparities between regions. In 2007-2013, the instruments to these objectives have their legal basis in a package of five regulations adopted by the Council and European Parliament in July 2006:

- Regulation no. 1083/2006 of 11 July 2006, which defines the principles, rules and standards for implementing the three cohesion instruments: the European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund;

- Regulation no. 1080/2006 of 5 July 2006, which defines the role and areas of intervention of the European Regional Development Fund (ERDF), such as promoting public and private investments to help reduce disparities in the Union;

- Regulation no. 1081/2006 of 5 July 2006,which defines the role and areas of intervention of the European Social Fund (ESF), which will be implemented in accordance with the European strategy on employment;

- Regulation no. 1084/2006 of 11 July 2006, which sets up a Cohesion Fund, to contribute to interventions in the environment and trans-European transport networks.

An important document to be considered at the background of the present paper is the **Strategy Europe 2020**, which launched a new vision for Europe's economy over the next decade, based on an enhanced coordination of economic policies to generate economic growth and increased employment of labor to help EU economic and financial recovery. The new strategy focuses on the following key areas: knowledge and innovation, a more sustainable economy, higher employment and social inclusion work.

From the Romanian National Strategic Reference Framework for the current programming period we have selected three operational programs which can be considered linked, to a lower or a higher extent to the development of the SME sector as a key driver for economic development:

- the Regional Operational Programe;
- the Sectoral Operational Programme Increasing Economic Competitiveness;
- the Sectoral Operational Programme Human Resources Development.

The Regional Operational Programme (ROP) addresses all the 8 development regions of Romania and is co-financed by the European Regional Development Fund (ERDF). The EU contribution will represent up to 85% of the total public expenditure. The total budget allocated to the ROP is approximately 4.4 million euro for the period 2007-2013.

The Sectoral Operational Programme Increasing Economic Competitiveness (SOP IEC) directly addresses the first priority of the National Development Plan (NDP) 2007-2013 i.e. “Increase of economic competitiveness and development of knowledge-based economy” and the second priority of the National Strategic Reference Framework (NSRF) 2007-2013 i.e. “Increasing the Long Term Competitiveness of the Romanian Economy”.

The general objective of SOP IEC is to support an increase in the Romanian companies' productivity, in compliance with the principle of sustainable development, and to reduce the disparities compared to the average productivity of the EU. The target is an average annual growth of GDP per employed person by about 5.5%. This will allow Romania to reach approx. 55% of the EU average productivity by 2015. In terms of figures, the EU contribution to SOP IEC budget for the 2007-2013 programming period is 2.554 million euro.

The Sectoral Operational Programme Human Resources Development (SOP HRD) sets the priority axes and the key areas of intervention in Romania in the human resources field in order to implement the EU financial assistance through the European Social Fund. SOP HRD is an important instrument in supporting the economic development and structural changes. Moreover, the investments in human capital will complement and will confer sustainability to the increase of productivity in a long term.

A highly qualified labor force, with a high level of education, having the capacity to respond to the new technologies and to the changing needs of markets, is essential for a competitive and dynamic economy. Romania will promote active labor market policies to increase the adaptability and flexibility of labor force. It is envisaged to support a higher level of participation on the labor market, as a base for a competitive knowledge based economy.

The EU allocation for SOP HRD is 3.476 million euro.

From the list of key areas of intervention in which SMEs are eligible beneficiaries, we have selected three areas of intervention to depend the analysis, as follows:

- ROP - Key Area of Intervention 4.3 - Support for the development of micro-enterprises;
- SOP IEC – Key Area of Intervention 1.1 - Productive investments and preparation for market competition of enterprises, especially SMEs;
- SOP HRD – Key Area of Intervention 2.3 - Access and participation to continuous vocational training.

For the selected key areas of intervention we have analyzed the target indicators at program level, with a focus on the indicators including or related to SMEs.

The selection was made in such a way so as o ensure a diverse and complementary consideration of types of support offered to SMEs through the structural funds program: de minims schemes for microenterprises, more complex state aid schemes for SMEs in order to increase competitiveness, support for human resources development in the SMEs.

For the key area of intervention dedicated to micro-enterprises from the ROP, the target indicators are presented in Table 1.

Table 1. Indicators set up by ROP, KAI 4.3

	Cumulative indicative targets							
Indicator	2008	2009	2010	2011	2012	2013	2014	2015
Output indicators								
Micro-enterprises supported (no.)	-	-	-	-	-	-	-	1.500
Result indicators								
New jobs created by the micro-enterprises supported (no.)	-	-	-	-	-	-	-	33.000

Source: Regional Operational Programme 2007-2013

For the key area of intervention dedicated to SMEs from the SOP IEC, the target indicators are presented in Table 2.

Table 2.Indicators set up by SOP IEC, KAI 1.1

	Cumulative indicative targets							
Indicator	2008	2009	2010	2011	2012	2013	2014	2015
Output indicators								
SMEs assisted for direct investment operation (number)	100	250	500	800	1200	1600	1800	2000
SMEs assisted for certification (number)	120	300	500	700	1000	1200	1400	1500
SMEs participating in international fairs (number)	40	120	250	400	650	900	1100	1200
Result indicators								
New jobs created and maintained in enterprises assisted (number)	100	500	1000	2000	4000	5000	6000	8000
Certified SMEs (number)	60	200	400	500	800	1000	1200	1500
The share of SMEs supported out of number of total eligible SMEs (%)	-	-	-	-	-	-	-	12
The increase in turnover for SMEs assisted (2 years after the project) (%)	-	-	-	-	-	-	-	10

Source: Sectorial Operational Program Increased Economic Competitiveness 2007-2013

For the key area of intervention dedicated to companies staff from the SOP HRD, the target indicators are presented in Table 3.

Table 3.Indicators set up by SOP HRD, KAI 2.3

	Cumulative Indicative Targets							
Indicator	2008	2009	2010	2011	2012	2013	2014	2015
Output indicators								
The number of participants in continuous vocational training (CVT) programs	55.300	101.400	156.200	216.900	284.800	354.100	354.100	360.000
of which - women	24.885	45.630	70.290	97.605	128.160	159.345	159.345	160.000
Share of enterprises providing CVT for their staff (%)	-	-	-	-	-	-	-	20
Result indicators								
Number of businesses assisted financially for employee participation in CVT	4.100	4.700	5.700	6.000	6.349	6.349	6.349	6.349
Number of persons receiving counseling / guidance - CVT	56.000	103.000	158.000	220.000	290.000	360.000	360.000	360.000

Source: Sectoral Operational Programme Human Resources Development 2007-2013

Once achieved, the above mentioned indicators have the power to generate structural improvements in the SME sector, which can benefit from financial resources at very low costs in order to develop their production capacity, to expand, to become more competitive, more efficient and more effective.

However, as derived from Goodhart's law, if these indicators are to be considered targets, they stop being good indicators in measuring the structural effects of the funds absorption. A lot of additional factors which may limit the expected effect of structural funds on SMEs should be considered. They can be of technical or financial nature.

3. TECHNICAL ASPECTS ASSOCIATED WITH PROJECT FINANCING FOR SMES

SMEs investments supported by European funds may be an important driver for economic development especially in times of economic decline. As simple as this statement may seem, there are a lot of complicating and even blocking factors in the process.

Some of the major problems encountered in the implementation of projects contracted by SMEs include:

(1) difficult and volatile rules related to public procurement procedures to be applied in order to spend the budgets projects co-financed from structural funds.

Although they are bodies of private juridical nature, SMEs must apply full or simplified public procurement rules when it comes to spending public money. In Romania, legislation regarding public procurements is complex and volatile. More and more restrictive rules induce a lot of delays in the process. Since they do not normally work with public procurement legislation when performing their ordinary procurements, SMEs are also vulnerable to make mistakes in the process and are therefore vulnerable to financial corrections from authorities in charge with monitoring and auditing the process. Other problems may occur in the procurement are: delays in the start of the procurements, condition upon the approval of the tender documentation by the national body in charge; insufficient expertise of the SME human resources to deal with large public procurements; contradictory points of view expressed by national authorities in charge; delays in signing procurement contracts; failures in the timely execution of contracts.

(2) changes to the initial contracts are time consuming and may induce delays

While in their ordinary activities, SMEs take the flexibility and speed to react in real time, when it comes to modifying the content of the project application because changes in their operational or market conditions, a lot of delays and restrictions may occur. These changes can only be performed if statuted in an addendum approbed by the authority funding the project, which requires time and effort.

(3) delays in the communication with the authority financing the project

Since not so many steps in the implementation can be done without prior approval or at least consultation with the financing authority, SMEs have to keep up the pace of their activity to these restrictions in order to avoid mistakes. Moreover, the bureaucratic burden of implementing such projects may detour resources for the operational activities of the company to the tasks for implementing the projects.

(4) unclear and untested sustainability for some of the investments

To promote sustainable projects, SMEs can prepare a viable strategy to ensure continuity of the project beyond the end of the financing contract. Sustainability can be backed up by: technical prerequisites necessary to increase performance; launching high quality products and services with major impact on the market; increased living standards of the project target groups by improving access to employment.

Project sustainability strategies envisage, among others:

- Opportunities for SMEs to transfer project results at various levels throughout the country as a model of good practice;
- Monitoring to ensure multiplier effects for the project results through the development and implementation of new activities;
- Mainstreaming of project results after completion of the project;
- Capitalizing the technical, scientific and financial added value for the SMEs, by setting up new institutional structures, financial and logistical procedures after completion of the project.

4. FINANCIAL ASPECTS ASSOCIATED WITH PROJECT FINANCING FOR SMEs

A simplified assessment of access to structural funds could point out the easy and frinedly use of financial resources free of charge. It is clear the extent to which such reasoning is simplifying.

First, not all the resources are free. In most of the cases the SME has to bring its own percentage of financial resources for the implementation of the project.

Second, money is not available as an advanced payment. With some exceptions in which pre-financing mechanisms are put in place, the SME has to be able to advance its own money for implementing a project and be ready to wait until part of this money is reimbursed by the financing authority.

To these considerations two other difficulties can be added:

(1) difficult access to additional resources (bank loans) for SMEs to be able to manage their cash flows, in order to cover the own contribution and the advanced payments.

Banks are not sufficiently motivated and reassured to consider the project financing contracts as collaterals for loans that they could give to SMEs. This puts a burden on the shoulders of the SMEs who are not able to cover the own contribution and the advanced payments from their own financial resources.

(2) delays in receiving the reimbursements

While reimbursement periods are stipulated in the financing contracts, normally there are delays. They can be due to the beneficiaries themselves because of not submitting correct and/or complete documents and because of not submitting adequate answers to the clarification requests. However, many of the delays are due to the managing authorities/intermediate bodies because of low speed of processing reimbursement requests. Such situations affect to an even higher extent the cash flow of the SMEs.

*5. C*ONCLUSIONS

While having a correlated analysis of the programme indicators for the three operational programmes included in the analyse and the set of technical and financial difficulties mentioned before, we have tried to organize our set of conclusions around the following pillars:

(1) *the actual need for structural funds in the SMEs sector versus the opportunity hunting*

Some SMEs hunt the opportunity of accessing structural funds with the sole purpose of getting financial resources free of cost, without any correlation between the project and their development plans and business strategy. Should such situations occur, the SMEs can be severely affected by the difficulty in achieving the targeted indicators and the burden on the cash inflow generated by the genuine activities of the respective companies.

(2) *the short term effects versus the long term impact*

As for many of the grant interventions, impact assessment if a very complex process. While job creation is part of the programme target indicators and is likely to be achieved being perceived as a contract obligation for the SME, there is no clear trace of the sustainability of the jobs created. SMEs may hunt the development of a business that they are not able to manage further, after the grant is ended.

In order to ensure long term impacts, SMEs have to be aware and capable to cover the operational costs of the investment created.

(3) *the risks versus the benefits of resorting to structural funds*

While benefits for the SMEs to access structural funds are undoubtfull, companies should also be aware of possible risks incurred. Thus, they may:

- enter a market where new competitors may arise, particularly foreign firms may have technical advantage, and thus be more effective;
- have serious problems with the cash flow;
- be confronted with serious delays in implementing the investment as compared to the alternative of financing the investment by their own resources. This can be particularly triggered by the delays in public procurements and the delays in receiving the reimbursement for the expenditure made in the project;
- modernization of the company, including changes in the production process of an existing site (eg. upgrading facilities, equipment and high tech equipment, automation of the manufacturing process, introducing new production technologies) can lead to drastic changes in the company structure which can adversely affect business and the make it impossible to return to the old system of work;
- some of the jobs may be lost because of the increased level of automation when manual labor is replaced with the technical or electronic processes supported by the project;
- for human resources development projects, training for only part of the employees within a SME can bring some divergence in terms of equal opportunities for the other employees of the enterprise; moreover, involving staff in the training programmes can lead to suspension for a period of activity and to a loss of productivity.

(4) the structural versus volatile effect at macroeconomic level in terms of economic growth and job creation

Even for projects which have job creation as a target imposed by the financing programme, the sustainability of the jobs created is questionable. Mechanisms to assess the structural effects of these projects in the medium and long run are not sufficiently put in place.

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THE IMPLEMENTATION OF INTERNAL CONTROL STANDARDS, DESIRE, NECESSITY AND OBLIGATION

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Abstract: Eurofound established minimum requirements for internal control processes through 16 standards that provide general principles of management: 1. Mission; 2. Ethical values and organizational; 3. Staff and mobility; 4. Evaluation and staff development; 5. Objectives and performance indicators; 6. Risk management process; 7. The operational structure; 8. Processes and procedures; 9. Supervision; 10. Activity continuity; 11. Document Management; 12. Information and communication; 13. Accounting and Financial Reporting; 14. Evaluation activities; 15. Assessment of Internal Control; 16. Internal audit capacity. We will analyze to what extent and under what conditions, implementing a system of internal control standards is: an act of will, necessity, obligation.

JEL classification: G02, G38

Key words: control standards, implementation, necessity, obligation

Eurofound financial control, internal control, public internal financial control, preventive financial control, organizational culture, Euromanagement, euromanagerul, globalization, corporate governance, the Supreme Audit Institutions, public institutions, INTOSAI, performance management, public management, public management, audited, performance management, internal control standards.

In the following we will analyze to what extent and under what conditions, implementing a system of internal control standards is: an act of will - result of the desire of investors to eliminate any suspicion on activity; necessity - as a result of loss of confidence in the accuracy of financial information to shareholders; obligation-resulting from the issuance of legal regulations.

The most significant expression, of the will of an organization to have its own system of internal control standards, accepted by all members and to be the starting point of its work, is at the European Foundation for the Improvement of Living and Working18. As a European Union body established by the European Council (Council Regulation (EEC) No.1365/75 of May 26, 1975), to contribute to the planning and design of better living and working in Europe, Eurofound, provides information, advice and expertise - on living and working conditions, industrial relations and managing change in Europe - for key actors in EU social policy based on comparative information, research and analysis.

In accordance with the guidelines on internal control standards, Eurofound has determined that implementation of internal control policy to ensure that: operational activities are efficient and effective; regulatory requirements are met; financial and management reporting is reliable; assets and information are protected. Internal control is the responsibility of all officials. Eurofound aims to ensure that internal control

[18] http:www.eurofound.europa.eu

systems are integrated with the operations, so that prompt reaction to changing circumstances is possible and the quality of decisions and delegation can be improved.

Eurofound established minimum requirements for internal control processes through 16 standards that provide general principles of management:

1. Mission – The reason to be of the organization is contained in the creation document. The mission is communicated to staff and is easily accessible. The purpose of each component is related to the structure.

2. Ethical values and organizational – the top management is attached to organizational ethical values and supports them through it's behavior and decisions. Ethical and organizational values are applicable to all employees. If there are rules and procedures, they are clearly communicated and accessible to all, to avoid conflicts of interest.

3. Staff and mobility - Allocation and recruitment is based on objectives and priorities and ensures a balance between continuity and renewal. The organization has a policy of promotion, implementation and monitoring to ensure that the person is at the right work at the right time and are has career opportunities.

4. Evaluation and staff development - Management evaluates employee performance and takes action to develop skills. Staff performance is evaluated annually based on objectives and requirements of the specification of the job. Promotion takes place after an assessment on the same criteria.

5. Objectives and performance indicators - aims, objectives and indicators are defined so achievement can be monitored and the assessment carried out. Annual plans are developed based on a dialogue between managers and staff to ensure they understood and detailed on achievement levels and resources are allocated and risks identified,

6. Risk management process - Annual Plan has integrated a risk management process. Management will establish a risk register and a realistic action plan that takes into account the cost / benefit and avoid inadequate controls.

7. The operational structure - organization supports decision making by delegation of powers. Risks of sensitive functions are reduced by controls and the mobilityof staff. Delegation of authority is defined and communicated in writing in accordance with the requirements of the regulations and includes decisions to be taken, and the risks involved. Sensitive functions are reviewed annually.

8. Processes and procedures - processes are efficient and effective, properly documented and comply with applicable requests. Documenting process procedures must be respected because they ensure the separation of duties and compliance with applicable requests (ex-ante and not ex post).

9. Supervision - management ensures that the implementation of activities run effectively and efficiently in time and in accordance with applicable provisions. Management oversight is refering to the lawfulness, regularity, performance and achievement. Management monitors the implementation of accepted audit recommendations and related action plans.

10. Activity continuity - management takes the appropriate measures to ensure continuity of service, if possible, regarding any disruption. Appropriate measures are taken in case of interruptions (no staff, new IT systems, etc.) through continuity plans which identify the functions, services and the infrastructure that is strictly necessary.

11. Document Management - Document Management organization is safe, effective and in accordance with applicable law. Management system of documents and procedures comply with relevant security measures on protection of personal data.

12. Information and communication - internal communication enables management and staff to discharge its responsibilities effectively and efficiently. External communication strategy is effective, coherent and in line with key messages. IT systems used are adequately protected against threats to confidentiality and integrity. Internal and external communication is in accordance with relevant provisions on copyright. Arrangements are in place to ensure that management and staff are adequately informed of decisions, projects and initiatives. Employees are encouraged to report potential weaknesses in internal control, to be reviewed by appropriate management level. Contacts have a documented strategy for external communication. Data management system and related procedures are in accordance with relevant mandatory security measures and regulations on protection of personal data.

13. Accounting and Financial Reporting - there are appropriate procedures to ensure that accounting data used to prepare annual accounts and financial statements of the organization are accurate, complete and timely made. Each officer has a responsibility to ensure the reliability and completeness of accounting information necessary for the accountant to prepare accounts which give a true picture of assets and of budget implementation. The accounting officer shall act as coordinator and assistant to ensure the quality of accounting data and information provided by the accounting system.

14. Evaluation activities - spending programs are reviewed according to the results, the impact of implementation, activities and the needs that satisfy the relevant activities. Evaluations are conducted in accordance with the annual evaluation plan outlining the type (ex-ante: retrospective, intermediate and ex post: the final evaluation, impact) and the scope of each assessment.

15. Assessment of Internal Control - management reviewed at least annually, the effectiveness of internal control, including processes performed by implementing agencies. The annual assessment is based on implementing agencies and the self-assessment activity is based on questionnaires or interviews of the personnel combined with management review in the surveillance reports on the results and checks ex-ante/ex-post on audit recommendations and on other sources that provide relevant information about the effectiveness of internal control.

16. Internal audit capacity - the organization is based on an internal audit capacity, which is independent and provides advice designed to add value and improve the operations. The annual audit plan is based on risk analysis and is part of a multi annual strategic plan and it is approved by the director. The director ensures that there are enaugh resources to implement the audit plan. The need to implement minimum internal control rules, has emerged asa result of failure of the corporate governance.

Sir Adrian Cadbury19 chaired a commission whitch aimed to investigate the British system of corporate governance and to suggest improvements. The committee was established in 1991 by the Financial Reporting Council and the London Stock Exchange. The report entitled "Financial aspects of corporate governance",provides guidance on the management regime of companies and their accounting systems, which have been applied to the way the report accounts are made by companies listed after

[19] Cadbury, A.: Report: „The Financial Aspects of Corporate Governance", 1992

June 30, 1993. Internal control had in that phase, the purpuse to protect assets, especially cash, and audits were based on the detection of fraud and clerical errors20, and the law was a descouraging factor only after the damage was done.

For the establishment of precise rules on internal control within enterprises, it was necessary to issue a series of laws. The first law on the implementation of internal control within companies, was The Sarbanes-Oxley Law known both as "Public Company Accounting Reform and Investor Protection Act" in Senate United States of America as well as the "Corporate and Auditing Accountability and Responsibility Act" in the House of Representatives of the United States of America,and it is the first act introducing regulations for listed companies of transparency and reliability of financial information. It is commonly called Sarbanes-Oxley, Sarbox or SOX, after Senator Paul Sarbanes andits supporters Michael G. Oxley21 and it is an U.S. Federal law.

This purpose of the law was to establish better standards for all the american public companies, their management and public accounting firms. The law had a benefical effect in restoring the confidence of the public in the capital markets and increasing the control on financial activities at a corporate level, because it covers issues such as auditor independence, corporate governance, internal control and improvement in the financial statement presentation. The 404 section of the law includes the most important and most frequently mentioned provisions22 related to implementation of internal control:

- Companies are obliged to publish in their annual reports, informations on the scope and adequacy of internal control structure and procedures for financial reporting.
- This statement shall also assess the effectiveness of internal controls and procedures.
- Accounting firm adds, the same report, also a report on the evaluation of the effectiveness of internal control structure and procedures for financial reporting.

Financial Security Law of France was adopted by the French Parliament, one year later, on July 17, 200323 and as well as the Sox Law, it is based primarily on an increased responsibility of leaders, a strengthening internal control and a reduction of the sources of conflicts of interest. The Executive Director is responsible for the preparation and content of company's annual report, which contains an "internal control report," which should make express the management responsibility for establishing and maintaining adequate internal control structure, and financial reporting procedures and shluld also include an assessment of company similar to that of fiscal year end, of the effectiveness of internal control structure and internal procedures of the issuer for financial reporting.

EU directives commonly referred EuroSox can be a strategic opportunity to control the regulatory parameters of a company. The directive on accounting focuses on four key elements to increasing confidence in financial reporting of the companies24: board members are collectively responsible for financial statements and non-financial information; transactions should be more transparent; the providing of complete informations on the off balance sheet; the issueeng of an annual statement of corporate governance. The main directives are as follows: Directive 78/660/EEC - Annual

[20] Tipgos, M. : Why management fraud is unstopable, CPA Jurnal, december 2002
[21] www.wikipedia.org
[22] http://www.soxlaw.com
[23] www.wikipedia.org
[24] http://www.grccontrollers.com/eurosox/WhatisEuroSox.pdf

accounts of specific types of companies, Directive 83/349/EEC - Consolidated accounts, Directive 84/253/EEC - Auditor and audit committee requirements. A summary of responsibilities and requirements of the three directives include: ensuring effective internal control and risk management; measures to safeguard shareholders' investments; increased requirements for financial disclosure; establishment of structures unur audit improving corporate governance standards and ethical codes.

EuroSOX's name is quite confusing, because there is very little similarity with American law Sabanes-Oxley (SOX). In the U.S., corporate scandals have triggered immediate creation of SOX legislation and its adoption nationwide. Instead, the EU legislative process takes time. In our country is first notion of internal control apares in 1999[25], but because it does not contain specific requirements for its implementation things were left in an declaraive status. Internal control standards are introduced in public institutions only in 2005 by order of Minister of Public Finance, but without providing measures offenses, in the case that their leaders will not take the necessary steps for implementation[26]. Formalized procedures to develop the activities of public entities are given as a model, a year later, by Order no. 1389/2006 on amending and supplementing the Finance Minister of Public Order.946/2005 for the approval of internal control, including standards of management / internal control and the developement of management control systems in public entities. To input the internal control standards begins only the end of 2010[27], when the failure of the management to prepare and submit annual report on internal control system / management, is considered comtravention and will be fined from 3,000 lei to 5,000 lei. This annual report on internal control system / management, is developed by the head entity, as an annex to the financial reporting.

The detailing of the contents of this report is made in 2011[28], when approved "Guidelines on the preparation, approval and submission of annual report of the head of the public entity on the system of internal control / management". The head of each public entity will have given the peculiarities of the legal organization and operation, the measures for the establishment and / or development of internal control / management, including the activities procedures.

The objectives, actions, responsibilities, deadlines, and other components of these measures are included in the program development of the internal control / management system, developed and updated in each public entity. For monitoring, coordination and methodological guidance of the implementation and / or internal control system development / management, head of the public entityis, developes by an internal decision, a "structure" with the necessary powers. The managerial responsibility derives from the manager's responsibility for all 5 components of the internal control / management in the public sector: control environment, performance and risk management, the information and communication, control activities, audits and evaluation.

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[25] Government Ordinance no. 119/1999 on internal control and preventive financial control

[26] Minister of Public Finance Order no. 946/2005 for the approval of internal control, including standards of management /internal control and public entities to develop management control systems

[27] Law no. 234/2010 amending Government Ordinance no.119/1999 on internal control and preventive financial control

[28] Minister of Public Finance Order no. 1649/2011 on amending and supplementing the Finance Minister of Public Order. 946/2005

The head of each public entity issues an annual report which is the official form of accepting the management's responsabilty on internal control /management and public institutions and it is the document which provides information on their internal control system. Statements made by the head of the public entity are based on the data, informations and findings from autoevaluation operation of the internal control / management's status, on ex-post internal audit reports and on there commendations arising from external audit reports. When preparing the report in annex 4.1 of the Minister of Public Finance nr. 946/2005, the head of the public entity is ordering the planning and carriing out by the heads of departments of the operation of internal control self-assessment / management. Self-realization is the main form of implementation of management rule defined by the standard 24 "verification and evaluation of control" of the Internal Control Code, which ecpresses that public entity shall establish an evaluation of their system of internal control / management, whose practice is the responsibility of each person occupying a leading position in the public entity. This feature of self-evaluation can neither be confused nor substituted for the assessment of internal control / management that the internal audit department carried out based on a specific methodology, in applying the standard 25 "internal audit" and the rules governing the in this field. To centralize data from self-evaluation, entity-wide public, is produced a situation, in Annex 4.2 of the Minister of Public Finance.946/2005. "The report on internal control system / management on December 31, 20 ...", prepared in accordance with Annex 4.3 of the Minister of Public Finance nr. 946/2005, is signed by the head of the public entity under the managerial responsibility and submitted with the accounts.

The head of the public entity may include in the report other information about certain elements of the internal control / management own, such as: information and findings to draw some feedback about the effectiveness of the next financial year; presentation of program elements and activities that are relevant to internal audit department; the implementation status of measures / actions / steps foreseen in the development of internal control / management; formulation of reservations on the effectiveness of internal control / management, by reference to one or more significant weaknesses in the system existing at the ending of the financial year, in which case it is mandatory to submit measures for their removal and related deadlines; analyze the cost / benefit to the establishment and enforcement of internal control / management.

In what concerns the role and responsibilities of members of an organization in implementing and maintaining internal control system, should be noted that "each member of staff has responsibility for internal control"29, as follows: managers are directly responsible for implementing an appropriate operation and maintenance and documentation of internal control; internal auditors examine and contribute to effective internal control system through recommendations and evaluations; staff members contribute with their own tasks, internal control beeing a part of it; external parties can provide useful information to achieve control; Supreme Audit Institutions's supports the establishment of internal control; internal and external auditors form on recommendations the audit; legislative bodies establish rules on internal control.

From those shown, only reality can confirm the degree of compliance with all legal requirements.

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[29] INTOSAI GOV 9100 :Guidelines on Internal Control Standardsin Public Sector

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TANGIBLE ASSETS REVALUATION AND THE FAIR VIEW

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Abstract: Each year in preparation of annual financial statements must be evaluated the entity's assets to be presented, so that these assets to be recorded in the financial statements at fair value need regular revaluation. Revaluations should be made with sufficient regularity so that the accounting value to does not differ substantially from that which would be determined using fair value at balance sheet date, so is guarateed the true and fair view of the financial statements. The study contains an analysis of the selected sample of 57 entities that responded to the questionnaire sent, with regard to: revaluation of assets of the entity, the reason of revaluation and the notion of true and fair view.

JEL classification: M41, C20

Key words: revaluation, tangible assets, revaluation reason, revaluation upwards or downwards, fair view,

1. INTRODUCTION

Current developments in modern society require continuous improvement of economic and financial information, respectively of the financial accounting information. It must be built to respond the requirements of management, investors to base decisions and information needs of partners of the entity (Mihalciuc, 2006).

In the national accounting concept are defined two bases of evaluation that can be used in preparing financial statements: historical cost, the basic evaluation rule and revalued amount / fair value, the rule allowed for tangible alternative. The IASB accounting conceptual framework defined four bases of evaluation that can be used in preparing financial statements: historical cost, current cost, realizable value and present value.There is no indication of preference for one or other of these bases of evaluation, but choosing one or more of these bases of evaluation must be consistent (consistent with) the concept of capital maintenance (which is the investor's wealth), in depending on which entity's performance (profit) is measured.

Revaluation is the modification and replacement of elements input values with new input property value. The new input value usually is equal to the index multiplied by old input price changes, which usually equals the market value or fair value. If the revaluation of fixed assets is made, the difference between the value resulting from revaluation and the value at historical cost must be submitted to the revaluation reserve as a distinct sub-element in equity.

Matiş (2003 cited by Bota-Avram, 2009) promotes the idea that “the fair view cannot be confused with an exact copy of the economic reality, but is the image that you can trust and which credit may be granted.” The fair view is the essence of good information to users no matter that they are or not holders of a portion of the capital of the economic entity.

2. OBJECTIVES

The main objective of this empirical study is to receive answer to the question: which groups of assets were revalued during 2008 - 2010, assets were revalued upwards or downwards, the reason of revaluation of tangible assets in the sample to present assets in the financial statements in Covasna county.

3. RESEARCH METHODOLOGY

For this empirical study we use the questionnaire - as research technique that includes a predetermined set of questions, so constructed as to ensure posibility to analyze the respondents opinions. We want to analyze by the questionnaire the groups of revalued assets and the reasons of revaluation of the selected sample entities, respectively testing the notion of true and fair view of the financial statements for financial managers / accountants.

4. LITERATURE REVIEW

On the revaluation, some authors consider that is more relevant and meaningful to do the revaluation of fixed assets, in the detriment of the revaluation of land and buildings. After other authors, the reason that managers are not indifferent to how and when do the revaluation of assets is due the costs which affectes the company.

Benston (2008) studied the fair value accounting deficiencies, respectively He & Zhang (2010) discuss fair value accounting during the financial crisis and the procyclicality of fair value, the two concluded that the fair value measurement can be used very limited; there is no possibility to manipulate the results, so that they are verifiable. He & Zhang in the conclusion of the study argued that in their opinion fair value accounting is the scapegoat of the crisis.

The International Accounting Standards Board (IASB) allows revaluation of the assets at fair value, which must be made with sufficient regularity so that the carrying amount (accounting value) does not differ substantially from fair value at balance sheet date. The reason being that such disclosures in the financial statements will present fairly the entity's asset value. We believe that the reason of revaluation is to present in financial statements information that reflects a fair view of the entity, as argued Aboody et al., (1999) cited by Cheng & Lin (2009). Aboody et al. (1999) use a UK sample to examine whether management use upward, the result was as follows: managers revalued assets to signal their private information about superior future performance, measured by future change in operating income and cash flow from operating activities. Cheng & Lin's study (2009) do not support the argument from Aboody et al. (1999) that UK firms use upward revaluations to signal their superior future operating performance. Instead, this study finds evidence supporting Lin and Peasnell (2000) in the sense that UK firms delay their upward asset revaluations because they can reduce future net profit, returns on total assets and equity during an economy-recovering period.

Whittred and Chan (1986 cited by Cioara & Tiron Tudor, 2010) presented five possible reasons for which is used reevaluation into an entity:

- when provided a profit lower than current profit;
- to provide information in the balance sheet;
- to create reserves for revaluation value resulting from the revaluation;
- to improve the financial coverage of shares and increase the price of the shares;
- when the report is to improve the debt / asset

Scott Henderson and Jenny Goodwin (1992 cited by Cioara & Tiron Tudor, 2010) considered that revaluation plus is not treated as income, and the new book value of the asset is amortized starting point for calculating depreciation in subsequent years. Following a positive review (increase value) of an asset amortized in the financial statements are the following effects:

- a greater expense to depreciation resulting profit lower. This does not refer to a movement of profits from one period to another. The expenses are high, profits are lost in the current year and are no longer recover in subsequent periods;
- earnings from eventual sale of an asset is less reassessed, since the value of accounts is higher;

Empirical literature has provided a number of factors to explain the decision of the revaluation in different contexts and environments. Among these reasons is remember:

- if a value resulting from a reassessment of the entities could obtain larger loans or new loans because the entity would report a rate of indebtedness, less due to increases in asset values, argued the reason Brown and all, in 1992, and Cotter Zimmer, 1995, and all Black, 1998; Cotter, 1999, Lin and Peasnell, 2000, Jaggi and Tsui, 2001 processed by Cioara & Tiron Tudor, (2010).
- revaluation allows the entity to make the historic level of market value, a phenomenon resulting in decreased profitability of a public offer subevaluate (Brown et all, in 1992, Easton all et, 1993).

Cotter & Richardson (2002) sought the answer to the (hypothesis) question: The information resulting from the revaluation of non-current assets by independent appraisers is more reliable than those resulting from the revaluation made by internal specialists?

Previous research suggests that upward revaluations are relevant for the capital markets, and that they are associated with future operating performance (Easton, Eddey and Harris, 1993; Barth and Clinch, 1998; Harris and Muller, 1998; Aboody, Barth and Kasznik, 1999 cited de Cotter & Richardson, 2002). In particular, Barth and Clinch (1998) find that the market considers both director and independent revaluations to be value relevant. They suggest that the capital market values the private information of the directors, and that this outweighs potential manipulation by opportunistic directors. While Barth and Clinch find no difference in value relevance, their work is silent on the possibility of differential reliability across appraiser type. Indeed, most tests of value relevance are joint tests of relevance and reliability.

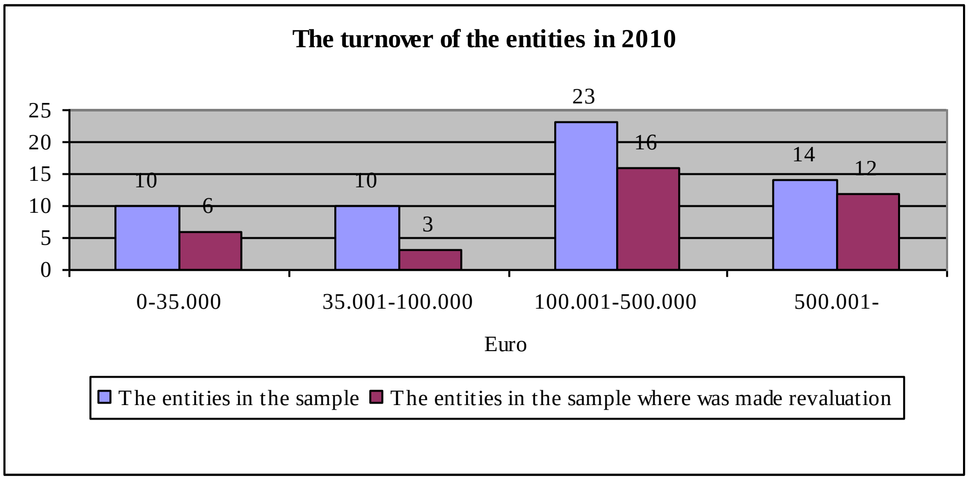
So, in their work of Cotter & Richardson (2002) entitled “Reliability of Asset Revaluations: The Impact of Appraiser Independence”, the authors concluded that their research results show that independent revaluations are no more reliable than revaluations made by the directors except revaluation of plant and equipment. There appears to be no statistically significant difference in reliability to other asset classes.

Entities, investors and / or users of financial statements need of revaluation of assets? There are close links between the revaluation of assets and fair view in the financial statements? Argument we can start with financial accounting subject is reflecting the company's external patrimonial circuit, and the calculation in summary form, the entity, the structure of assets and liabilities and results. So the subject of accounting is to reflection in money terms of patrimonial management businesses, the movement and its transformation as a result of economic and financial operations and results. Then, the presentation in financial statements the fair view we can say that it is obligatory, but to reach to the fair view in the financial statements must reflection reversible and irreversible changes in the value of the assets of the entity, so it must be reassessed, because if the accounting trough financial statements may not reflect the real patrimony of an entity, then we talk only about some statistical informations that have almost no use for current and future owners or investors of the company (Márton & Csősz, 2010).

5. RESULTS AND DISCUSIONS

To achieve the empirical study we developed a questionnaire with 8 questions that we sent to entities in Covasna county. The questionnaire had questions related to the revaluation of fixed assets during 2008 - 2010, revalued assets upwards or downwards, the reason of revaluation of tangible assets, respectively testing the notion of true and fair view of the financial statements. This questionnaire was designed for financial managers and accountants, how are responsible to organize the accounting of the entities. The sample consists of 60 entities, the number of responses was 57.

First we made a descriptive analysis of the entities in the sample based on turnover in 2010. Of the 57 entities to 37 were made revaluations. In majority entities who made turnover over 100,000€ have realized revaluation to 16 representing 69.57%, respectively 12 entities representing 85.71% of all entities in the group.



In the following table is described in absolute and relative value the number of entities that have made revaluation and the turnover grouped into four groups.

The turnover of the entities in 2010

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Turnover under 35 000 euro	6	10.5	16.2	16.2
	Turnover between 35 001 - 100.000 euro	3	5.3	8.1	24.3
	Turnover between 100. 001 - 500.000 euro	16	28.1	43.2	67.6
	Turnover greater than 500.001 euro	12	21.1	32.4	100.0
	Total	37	64.9	100.0	
Missing	System	20	35.1		
Total		57	100.0		

With the Mann-Whitney U test we want to test whether is statistically significant difference between entities with turnover below 100,000 € and entities with turnover over 100,000 € in respect of revaluation of assets of the entity.

Ranks

	The turnover of the	N	Mean Rank	Sum of Ranks
Revaluation of the assets	Turnover between 0 - 100 000 euro	20	23.33	466.50
	Turnover greater than 100.000 euro	37	32.07	1186.50
	Total	57		

Ranks table shows the number of subjects, the average rank and rank sum for each group. From this table we can see that entities with turnover over 100,000 € have a higher average rank of entities with turnover below 100,000 € shows that entities with turnover greater than 100,000 € were made more revaluation than in the first group.

Test Statistics table shows the values of Mann-Whitney U test, Wilcoxon W, transformation U value in Z score and the associated limit of signification. From this table we are interested the value Z and the limit of signification p (sig.). We note that Z = -2.296, p = 0.022 (0.022 <0.05), therefore there are significant differences between the two groups of entities regarding the entity asset revaluation.

Test Statistics[a]

	Revaluation of the assets
Mann-Whitney U	256.500
Wilcoxon W	466.500
Z	-2.296
Asymp. Sig. (2-tailed)	.022

a. Grouping Variable: The turnover of the entities in 2

Calculating the effect indicator from the formula $r = \sqrt{\frac{z^2}{n}} = \sqrt{\frac{2{,}296 \times 2{,}296}{57}} = \sqrt{\frac{5{,}2716}{57}} = \sqrt{0{,}0925} = 0{,}30$, we obtained such an effect size r = 0.30, which according to Cohen's criteria (1988) shows that the effect of variable size of the turnover on entity assets revaluation is medium.

If we group entities on the basis of turnover in two groups, the result is: the entities that have turnover less than 100,000 euro in number of 20 in the sample tested, nine entities were revalued assets in the last three years, representing 45% of that group and the entities with turnover greater than 100,000 euro in number 37 of the sample tested, 28 entities were revalued assets in the last three years, representing 75.68%. The analytical data are presented in Cross tabulation table.

The turnover of the entities in 2010 * Revaluation of the assets Crosstabulation

			Revaluation of the assets		
			No	Yes	Total
The turnover of the entities in 2010	Turnover between 0 - 100 000 euro	Count	11	9	20
		% within The turnover of the entities in 2010	55.0%	45.0%	100.0%
	Turnover greater than 100.000 euro	Count	9	28	37
		% within The turnover of the entities in 2010	24.3%	75.7%	100.0%
Total		Count	20	37	57
		% within The turnover of the entities in 2010	35.1%	64.9%	100.0%

Analysis of answers given by respondents is presented below:

1. Tangible assets revalued during 2008 - 2010:	Revaluated tangible assets	2008	2009	2010
	Land	1	1	0
	Buildings	4	6	21
	Land and Buildings	0	5	1
	All tangible assets	1	0	1
	Total	**6**	**12**	**23**

During 2008 - 2010 were made 41 revaluations at the entities in the sample, four entities were made two revaluation during of these three years, so at 37 entities have made revaluation and at 20 not. Of the total number of 41 revaluation performed from 2008 to 2010, 6 revaluation representing 14.63% was performed in 2008, 12 revaluation representing 29.27% was performed in 2009 and 23 representing 56.10% revaluation was performed in 2010.

The following table describes analytical the revalued assets and the revaluation year, the frequency column presents the number of entities that have made revaluation of assets, so we can see from this table that 37 entities have performed revaluations in this period, respectively four entities were made two revaluations.

The year of revaluat the tangible assets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2008 – Building	3	5.3	8.1	8.1
	2008 – All tangible assets	1	1.8	2.7	10.8
	2009 – Land	1	1.8	2.7	13.5
	2009 – Building	4	7.0	10.8	24.3
	2009 – Land and Building	5	8.8	13.5	37.8
	2010 – Building	17	29.8	45.9	83.8
	2010 – Land and Building	1	1.8	2.7	86.5
	2010 – All tangible assets	1	1.8	2.7	89.2
	2008 – Land & 2010 – Building	1	1.8	2.7	91.9
	2009, 2010 – Building	2	3.5	5.4	97.3
	2008, 2010 – Building	1	1.8	2.7	100.0
	Total	37	64.9	100.0	
Missing	System	20	35.1		
Total		57	100.0		

Based on the responses given to the questions: Which of the tangible assets were revalued in upwards in 2008, 2009 and 2010, respectively downwards, is performed the analysis which is presented in the following tables and the following paragraphs:

2. Tangible assets revaluated upwards in 2008, 2009, 2010:	Revaluated tangible assets	2008	2009	2010
	Land	1	1	0
	Buildings	3	5	22
	Land and Buildings	0	4	0
	All tangible assets	1	0	1
	Total	**5**	**10**	**23**
3. Tangible assets revalued downwards in 2008, 2009, 2010:	Revaluated tangible assets	2008	2009	2010
	Land	0	0	1
	Buildings	1	1	0
	Land and Buildings	0	1	0
	All tangible assets	0	0	0
	Total	**1**	**2**	**1**

In 2008 of total of six revaluation performed at 5 cases after revaluation the new book value was greater than net book value before revaluation, respectively in one case was reduced the net book value of revalued asset. In 2009 at 10 cases increased asset value and in two cases decreased revalued asset value. In 2010 we mention earlier that 23 entities have performed revaluations. The reason that buildings were revalued upwards at 22 entities is due to the fact that an entity in 2010 were revalued land and buildings, land is revalued downward and buildings upward. The ratio of upward/downwards revaluation during 2008 - 2010 is as follows: 20% (1/5), 20% (2/10), 4.35% (1/23).

Next we test if there is relationship between land and buildings revaluation year, analyzed separately and revaluation upwards or downwards of assets referred in the 2008 – 2010 period using simple regression:

Revaluation year for land has no relation to revaluation in upwards or downwards, result from the regression. Model Summary shows that, in our case R = 0.395, so the correlation is not strong, so between revaluation year and revaluation upwards or downwards of assets the correlation is not strong. R Square is 0.156 which means that 15.6% of the variance of the dependent variable variance can be explained by the independent variable. Further, the ANOVA table we obtain the following information: F-test checks whether the regression line is significantly different from 0, namely if the prediction is that we do is better than one based on chance. How F = 1.481 is not significant (Sig. = 0.258), that is very unlikely that there is a linear regression to express the relationship between two variables, these two elements are independence to each other.

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.395[a]	.156	.051	.411

a. Predictors: (Constant), The year of revaluation land
b. Dependent Variable: Revaluation upwards or downwards of land

ANOVA[b]

Model		Sun of Squares	df	Mean Square	F	Sig.
1	Regression	.250	1	.250	1.481	.258[a]
	Residual	1.350	8	.169		
	Total	1.600	9			

a. Predictors: (Constant), The year of revaluation land
b. Dependent Variable: Revaluation upwards or downwards of land

Revaluation year for buildings has relation to revaluation in upwards or downwards, result from the regression. Model Summary shows that, in our case R = 0.338, so the correlation is not strong, so between revaluation year and revaluation upwards or downwards of assets the correlation is not strong. R Square is 0.114 which means that 11.4% of the variance of the dependent variable variance can be explained by the independent variable. Further, the ANOVA table we obtain the following information: F-test checks whether the regression line is significantly different from 0, namely if the prediction is that we do is better than one based on chance. How F =

4.505 is significant (Sig. = 0.041), that is likely that there is a linear regression to express the relationship between two variables, which means that the independent variable helps to explain the dependent variable variance.

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.338[a]	.114	.089	.26417

a. Predictors: (Constant), The year of revaluation buildings
b. Dependent Variable: Revaluation upwards or downwards of buildings

ANOVA[b]

Model		Sun of Squares	df	Mean Square	F	Sig.
1	Regression	.314	1	.314	4.505	.041[a]
	Residual	2.442	35	.070		
	Total	2.757	36			

a. Predictors: (Constant), The year of revaluation buildings
b. Dependent Variable: Revaluation upwards or downwards of buildings

4. The reasen of revaluation of buldings is:	Presentation the fair value of the buildings in the annual financial statements	3
	Determine the taxable value of the buildings	32
	Both of them	1
	Total	**36**

To test the reason of buildings revaluation: presentation the fair value of the buildings in the annual financial statements or determine the taxable value of the buildings we applied the binomial test. The purpose of binomial test is to compare a proportion with a specified value. In this test was not taken into account where the response was both of reasons.

How significant is <0.05 (Sig. = 0,000) that means, determine the taxable value of the buildings reason predominate in a significantly greater extent compared with the presentation the fair value of the buildings in the annual financial statements in the tested sample.

5. Consider correct in point of view of accounting, the obligation under the tax code to revaluate in every three years the buildings of the entities:	a) Yes	28
	b) No	19
	Total	**57**

Entities who answer affirmatively for above question argued by the following:

- Because it provides true and fair view of the assets of the entity's financial statements
- The buildings value is reflects better in the annual financial statements

- The property market change dramatically from year to year. While three years is a lot of changes, changing economic purpose of the buildings, such as is necessary to revaluate the buildings
- Give the correct market value, for the management of the entity about the buildings
- Because it provides frequent revaluation of buildings, therefore the financial statements present the fair view of patrimony

Entities who answer negatively for above question argued by the following:

- Taxation influences in a negative way the accounting principles
- Taxation requires to revaluate
- Because the accounting need to be separate from taxation, not to impose taxation evaluation methods for accounting
- The assets revaluation should be correlated to property market – buildings market
- To plan the revaluation of the buildings to each entity when consider necessary, not be required

6. The reason of other tangible assets is:	Presentation the fair value of the assets in the annual financial statements	2
	Increase the value of the entity by revaluation upwards of the assets and reduce the debt ratio of the entity	8
	Total	**10**

From analyzed sample of 10 entities have revaluate other non-current assets besides revalued buildings (at an entity was revalued only land), representing 27.03% of all entities that have been performed revaluations in the period 2008 - 2010.

To test the reason of other non-current assets revaluation: Presentation the fair value of the assets in the annual financial statements or increase the value of the entity by revaluation upwards of the assets and reduce the debt ratio of the entity, we applied the binomial test.

How significant is >0.05 (Sig. = 0,109) that means, the increase the value of the entity by revaluation upwards of the assets and reduce the debt ratio of the entity reason not predominate in significantly greater extent compared with the presentation the fair value of the assets in the annual financial statements in the tested sample.

7. Consider that managers / boards of directors gives sufficient attention financial statements?	Yes	5
	No sufficient	32
	No	20
	Total	**57**

Most financial directors / accountants consider that managers / boards of directors not gives enough attention to the financial statements, from tested sample 32 respondents said this, representing 56.14% of the given answers, and 20 financial directors / accountants said that management does not gives any attention to the annual financial statements. In the analyzed sample only 5 said yes, so the only at 5 entities of

57 entities, management gives attention to the annual financial statement, representing 8.77% of all entities.

8. What is the meaning of true and fair view of the annual financial statements for you?	Possible meanings of the concept true and fair view	Score obtained
	Correcness in representation of economicreality	12,75
	Complete presentation of financial information	14,65
	Fair presentation of financial information	14,95
	Presentation of relevant and useful information	14,10

(5 – total agree – 0,3p, 4 – agree – 0,25p, 3 – partial agree – 0,2p, 2 – disagree – 0,15p, 1 – total disagree – 0,1p)

This question was formulated based on research performed by Dr. Florin Boţa-Avram, who studied the true and fair view in accounting in Romania. We chose the possible meanings of the concept true and fair view of the author mentioned and we listed over the coefficient algorithm importance grant. The most important significance of the concept of true and fair view presentation in Covasna County, granted by financial managers / accountants results out to be "Fair presentation of financial information", but there were no significant differences from "Complete presentation of financial information" and "Presentation of relevant and useful information".

6. CONCLUSIONS

Most of the revalued assets have been revalued upward, revaluation downward is under 10% compared to the total number of revaluations. By applying the Mann-Whitney U test the result was there are significant differences between entities with turnover below 100,000 € and entities with turnover over 100,000 € in respect of revaluation of assets of the entity, respectively entities with turnover below 100,000 € in the tested sample 45% made revaluation of the tangible assets during 2008 – 2010, while 75,68% of entities with turnover greather than 100,000 € reveled tangible assets during 2008 – 2010. Thus we can conclude that the entities with turnover over 100,000 euro probability of assets revaluation are greater than the entities with turnover below 100,000 euro.

In the analyzed period 2008 - 2010 under the 37 entities that have been made revaluation, just only one entity not revaluate building, at 10 entities were revalued land and at two entities other non-current assets. The reason for revaluation the buildings is to establish the taxable value of the buildings (88.89%), so we conclude that the revaluation of buildings which was made in 97.30% of all entities which have performed during in the three years revaluation was made in tax law obligation.

In connection with the obligation under the Tax Code to revaluate the entity buildings every three years, our view is similar to respondents who answered negatively to question four. If we consider correctly the influence of taxation, fiscal policy on accounting, then we can't talk about fair view financial statements which are made based on professional judgement. Taxation would not be to require accounts to use certain methods of evaluation, respectively revaluation of assets of the entity, that should be plan by entity experts, and date of the revaluation to be established with professional judgement, so to be made when is necessary.

We conclude that currently the majority of managers / boards of directors not give enough attention to annual financial statements in the sample (91.23%), so the conclusion is that most managers of entities considered accounting as a “necessary evil” which must be made the reason that it is required.

The significance of true and fair view of financial statements under accounting specialists in Covasna County is not diversified as three possible meanings received similar scores, we believe this is due to the fact that the concept of true and fair in accounting practice is treated as a theoretical concept / theoretical objective, not accupying with his philosophy, so can’t really distinguish between the possible meanings of the concept .

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ADVANCED COSTING METHODS AND THEIR UTILITY IN ORGANIZING MANAGEMENT ACCOUNTING

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Abstract: The main objective of this scientific approach is to underline the specific and utility of advanced costing methods starting from the limits of classic costing methods. The results of this study are materialized in delimiting the main modern costing methods, how costs and causes behind costs are identified, particularly how they interfere in cost reduction and decision-making. The article aims to prove the usefulness of applying modern costing methods, recalling principles that govern them and the manners and conditions of applications. The contribution of this research is materialized in a critical approach of the main advanced costing methods, starting from the assumption that all methods are based on common principles, but also have sensitive areas that set them apart, the purpose of this scientific approach being to identify and to briefly present these sensitive areas.

JEL classification: M40, M41.

Key words: methods, costs, management, computing, decisions.

1. INTRODUCTION

The significant changes of the production technology, changing competitive conditions, but also other factors, underlie giving up costing based on traditional reasoning. Switching to new thinking in the area of costing has represented an important moment in redefining the role of management accounting in leading an entity.

2. OBJECTIVES

The main **objectives** pursued by this scientific approach are:

1. Underlining the necessity to abandon traditional costing methods due to the deficiencies they show in monitoring and controlling costs;

2. Reviewing the following modern costing methods: Just in Time method, Throughput Accounting method, back flush Accounting method and UVA method.

3. METHODOLOGY

This article is part of a doctoral thesis, the applied research method is the **basic** research, and the information on the topic was gathered by studying the national and international literature in the field, by analyzing the legislation, by navigating specialized websites and various articles from databases. The main research methods that were used in my scientific approach were **documentation, analysis** and **synthesis.**

4. ANALYSES OF THE LIMITS OF TRADITIONAL COSTING METHODS

The issue of abandoning classic and traditional costing methods and of adopting modern and advanced methods has been widely debated in recent literature. The progresses achieved in perfecting production technology have demonstrated the growing traditionalism and conservatism shown in cost calculation.

Thus, the first failure of traditional costing methods was seen in the context of **significant changes that occurred in production technologies**. Today, entities are automated and computerized, products are renewed and their life cycle is shortening, services evolve and adapt to new consumer needs.

Major changes are also felt in the **conditions of competition** on domestic and foreign markets, and there is a shifting tendency of competition from quantitative criteria (price) to qualitative criteria (product quality, security of provided services). Traditional accounting information systems are mainly limited to quantitative aspects, and less to qualitative aspects.

The main features identified in classic costing methods are: low number of support functions and small share of indirect costs within total costs; a predominant share of direct costs within total costs; rigidity in changing products, as well as in changing costing methods; introducing on a large scale standardized and uniform products.

Another short-coming of classic costing methods is the fact they can't provide a precise calculation of cost by product due to the **assignment of indirect expenses based on conventional criteria**. This affects the quality of information about costs, responsibility and operative control of costs.

Some of the classic absorption costing methods categorize expenses in direct and indirect depending on how they are allotted by product. Increasing the share of indirect costs in total expenditure and using arbitrary keys to distribute them has lead to inaccurate results due to ignoring the causal relationship between the used key of distribution and the achieved expense.

Another limit of classic methods is the fact they are mainly oriented towards **full costing** without taking into account the variation of expenses compared to the production volume. They put emphasis on grouping expenditure in direct and indirect expenses, and not on grouping them in variable and fixed expenses. Expenditure control is affected by this division, as well as cost efficiency. Their structuring into variable and fixed would allow the calculus of indicators with high percentage of information, necessary for substantiating decisions. Fixed expenses are those "*expenses that concern a single cost. Therefore, incorporating them into costs poses no problem: in other words, let assign them to costs*"[30], and indirect expenses concern several costs and are assigned in accordance to certain procedures.

"*The information provided by classic methods* ***loses its relevance*** *due to the growing share of indirect expenses in total expenses of the enterprise and the high cost*

[30] Louis Debrulle, *Management Accounting*, Economică Publishing House, Bucharest, 2002, p.29.

of gathering and treating information" [31]. There is still a significant gap between gathering and processing data on costs, which is still done manually in many cases, and the automation stage, which means using modern techniques of calculus. The concern to rebuild a safe information system for costs will require shifting from a simple analysis of costs to an authentic management of costs.

In conclusion, the rigidity of the information system of management accounting governed by traditional costing methods has made it difficult to monitor costs, to establish standards, to conduct an analysis of deviations regarding products. It was necessary to outline a type of **cost accounting** or a type of analytic accounting that is able to grasp the causes behind costs and to associate them with products.

5. CRITICAL ANALYSES OF ADVANCED COSTING METHODS

There are three categories of products that have given economic, technological and managerial processes to management, causing major changes, such as[32]:

-The increased market competition and the interposition of the customer in the value chain requires the managers to show a constant concern to reduce traditional costs and to replace them with costs associated to activities that sustain the product, conducted upstream or downstream from the production area, in the stage of design or the stage of distribution and promotion of products and services on the market;

-Implementation of automated manufacturing technologies in productive processes, operational control of production and diversification of resource-consuming activities that compete in achieving production represent the new technical and organizational conditions that define operational activities of entities;

-Models for assisting the management process based on techniques of automatic processing of information represent management challenges for the production of goods and services within an entity.

These three main trends have led to innovating and promoting modern costing methods based on assisting the management process, such as: the **ABC method – Activity Based Costing**; **TC – Target Costing; KC – Kaizen Costing; JIT – Just in Time; TA – Throughput Accounting; BFA – Backflush Accounting; UVA – Unités de Valeur Ajoutée.**

5.1.JIT – JUST IN TIME METHOD

As entities switch to a new production environment, it is necessary to speed up the production, measuring, control and reporting processes, as well as to change accounting procedures and techniques for measuring and monitoring activity. All these changes require developing the active function of accounting in order to develop forecasts, strategies and policies directed towards eliminating waste of raw materials, of human resources, of production space and time, as well as reduce the time for achieving pertinent accounting records.

"*Just in Time or JIT is a set of quantitative and qualitative techniques of management and beyond, being almost a global solution of strategic and operational management, even a philosophy*"[33].

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[31] Mariana Radu, *Management Accounting,* Bibliotheca Publishing House, Târgoviște, 2010, p. 313.

[32] Adaptation after Gheorghe Fătăcean, *Managerial Accounting,* Alma Mater Publishign House, Cluj-Napoca, 2009, p 339.

JIT originates in the 1960s in the Japanese shipping industry when due to major investments in shipyards they negotiated more frequent deliveries and they reduced inventories, making major changes to delivery dates.

The central idea of operating in real time is to produce and buy the demanded product or service only in the needed quantity and quality, and especially in a timely manner. This method for optimizing production relies on reducing the supply-production-distribution cycles starting from the premise of optimizing inventories so that at the end of each production process, the entity will be in one of the following situations: completion of final products coincides with their delivery; semi-finished products don't go through a stage of intermediate storage, but go straight into the finishing stage; to avoid frizzing financial resources, the supply should take place when the production is launched.

The JIT system is based on the following principles: the quality of the production process is essential, the working environment is continuously improving, simplicity helps sophisticated processes, the quantitative level of inventories represents freezing resources, goods are manufactured only when needed, any activity that doesn't generate added value for the product must be reduced or eliminated, the personnel must be qualified.

The system implies observing a rigorous technological discipline in which production takes place only when it's necessary and inventory is avoided. Implementing this system requires creating an operational system that includes:

-eliminating inventories - this will lead to eliminating their storage space, to reducing the volume of deteriorated inventories, to personnel cuts, to fewer control instruments for inventories, etc. The term zero inventories is dangerous and don't always generate positive effects, their absence in certain situations causing crises;

-creating a planning and scheduling system of pull-through production – it places the client's order to the forefront, this being what triggers production and supply. *Push-through* production (production pushed by the market) means producing on long term, before receiving the order from the customer, while the reason of pull-through production is production "pulled by the market";

-splitting batches has positive effects on the behaviour of operators and implies manufacturing and delivering products in small batches, depending on needs;

-the quick and inexpensive adjustment of equipments is possible by installing a system of preventive intervention and a system of full control of machines that allows to identify the weaknesses and to quickly inform operators. The Japanese relied on a golden rule: *Never manufacture until you are sure of finishing without flaws*, so that every machine incapable of generating zero-defects was replaced;

-creating flexible working cells – the JIT system establishes a new mien of the distribution of production lines according to the following rules[34]: *rearranging equipment to reduce the time required to manufacture a product, only the equipments for consecutive processing are arranged on the process flow; establishing a flexible grouping of equipments so that all homogenous operations will be conducted efficiently and continuously; placing machinery in a manner that will allow the continuous and*

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[33] Chirața Caraiani, Mihaela Dumitrana, *Management Accounting and Control,* InfoMega Publishing House, Bucharest, 2005, p.416.

[34] Gheorghe Fătăcean, *Op.cit.,* p. 368.

efficient manufacturing of families of similar products, ensuring at the same time the permanent adjustment of equipments;

-training a multi-skilled staff represents a necessity for applying the JIT model because the personnel operates simultaneously with several equipments and the operational working cells can be managed by a single operator who has to perform multiple tasks;

-imposing high quality standards for products and processes in order to conduct continuous check-ups of the manufacturing process, to verify product quality, to ensure high quality of raw materials and materials so that they don't cause disruptions on the production lines.

The advantages of the JIT concept are the reduction of delivery time for products and the decrease of financial resources for storing the achieved production; and its disadvantage is the occurrence of new incidents, such as: unexpected failures of technological lines, strikes.

JIT proposes a new control method by post with the purpose of reducing the response time of control. There are two ways to control the post: cascade control, which involves checking a list of tasks performed by the operator, and self-control, meaning the operator checks his own work.

In American literature, the **Kanban Method** broke away from the JIT method. This new method aimed to avoid the tendency manifested by large entities to produce a surplus, demanding the start of production only when required and in the ordered quantity. The Kanban system "*is designed to produce only the components necessary for a process of supply on demand called pull-process. This means that an upstream position must only produce what was demanded by the downstream position, which, in its turn, must only produce what was demanded by its own downstream position. Kanban is an information system that makes the needs from the downstream to quickly climb to the upstream. It actually overlaps a physical flow with a reverse flow of information*".[35]

The Kanban system is an information system that controls production through three types of cards: withdrawal kanban, production kanban and kanban for sale. The first two cards control movements within the manufacturing process, while the latter monitors the circulation of sub-assemblies on the production – supplier path.

The JIT method extends the concept of performance over time and space by using a new framework of management control and is based on the undefined use of the information that accompanies the flow of products.

5.2. TA – THROUGHPUT ACCOUNTING

The emergence of throughput accounting is related to the theory of constraints, which refers to that fact an entity must identify the constraints of a system and must make decisions regarding how they should be exploited.

The **Throughput Accounting method** (**TA** or output accounting) is "*a system of measuring final results and of computing the production cost. It's considered that it rounds the JIT principles and draws attention to the determinants of profitability, such*

[35] Chirața Caraiani, Mihaela Dumitrana, *Op.cit.*, p.423.

as the influence of the changes occurred to the production volume based on orders or pull-through”[36].

The **pull-through** system (market-based production) is characterized by the fact customer orders are the ones that determine the acquisition of raw materials and production scheduling. The orders received from clients determine the production volume on one hand and, on the other hand, maintaining low inventories requires more frequent adjustment due to multiple interruptions of activity.

The **push-through** system (production in search of market) is characterized by products manufactured on long term and stored prior to receiving orders from clients.

TA determines the production cost in relation to how each product consumes resources, relating results and production to inputs. It is based on three concepts:

-most costs (except costs for short-term direct materials) are fixed and are called **Total Factory Costs** (TFC);

-the non-use of the labour capacity will determine an **increase of the volume of work in progress** (WIP), and the level of inventories will create non-profit, which is a situation that must be discouraged;

-profitability is influenced by the speed with which the finished products are obtained, so that by **improving the production capacity**, the possibility to meet customer orders will also increase.

The **TA index** or the **output rate** is determined by relating the *income per hour worked* (or minute) to the *cost per hour worked* (or minute). The earning or income per hour worked is determined by subtracting the cost of direct materials from total sales and reporting everything to the time spent in the key resource, meaning the last resource of the production chain.

If the TA index is proper, then the product is unprofitable and should be withdrawn from the market. By using “Throughput Accounting”, the products that are not sold don’t produce incomes and will diminish the output rate without creating the value of a product before selling it.

The TA index may be expressed in **absolute terms** (TFC), an option that allows comparing total incomes resulted from inputs with total costs, the calculus formula reffering total sale (except the cost of direct materials) to TFC.

TA suggests that assigning indirect expenses to costs should take place depending on how key resources are used. In this case, the **output cost** or the **throughput cost** is determined by dividing the product between standards minutes of outputs and total manufacturing costs to the minutes in key resources.

In conclusion, the TA method: defines all inputs as sales, except material costs; the costs of direct materials are considered variable costs; total costs are considered fixed costs; the gross margin isn’t a relevant indicator of profitability.

The TA method has been heavily criticized, but it directs the manager towards the key element in obtaining profit, reducing the time of response to the demands of clients and reducing inventories.

5.3. BFA – BACK FLUSH ACCOUNTING

The BFA method (Back flush Accounting) is an accounting system designed to reflect the principles of the JIT system, with the central idea of running a backwards

[36] Dorina Budugan, Iuliana Georgescu, Ioan Berheci, Leontina Beţianu, *Management accounting*, CECCAR Publishing House, Bucharest, 2007, p. 490.

approach of the production flow, starting with the value of the sold goods, in relation to which the costs will be assigned to inventories or to sell products.

The concept of back flush costing has the meaning of **backward calculus**. The BFA principle proposes to account for materials not as they are consumed, but when the final products are obtained and sold. The production cost is considered as cost of the period and is imputed to sales.

Basically, back flush accounting allows ignoring the inventory of finished products, adjusting the consumptions of a period of sales.

The BFA method aims two main aspects:

- it proposes the replacement of raw materials and work in progress accounts with a single account, taking into account the expenses with consumed inventories;
-it takes into account the transformation costs (labour costs and expenses with energy), which are basically assigned to the cost of the finished product (after several transactions in various accounts and after they are obtained) and not to the work in progress.

The advantages of the BFA method are: simplicity, without separately tracking raw materials and work in progress; it uses a small number of primary documents; it causes managers to adopt measures to eliminate inventories of finished products because they don't add value to the result.

5.4.UVA – UNITÉS DE VALEUR AJOUTÉE

The UVA method uses a non-monetary unit of measure for measuring the activity of the entity and costing. The principle of this method is to reduce the activity of the entity to a single product or to a family of products. The UVA method, developed by Georges Perrin, focuses on the idea of a common measure, of an index of equivalence, for the value of the entity.

The GP method, currently called UVA, avoids the global treatment of costs, focusing on a detailed analysis of each activity, and the costs of these activities remain generally stable in relative values.

The UVA method places emphasis of the strategic use of costs, monitoring how products are manufactured and sold, but also how the added value is created with each phase of production.

Adopting this method involves two phases:

-the construction phase of the method: aims to value in UVA the manufactured products, the administrative and commercial ranges, etc, and to compute the value added expressed in units of value added attributable to each product and service. Building the method implies taking the following steps: taking stock of UVA positions, defining a unit of measurement for values, assessing UVA positions in units, assessing resources, computing UVA indexes related to positions, computing UVA equivalents for products and services, computing the UVA equivalent of a sale;

-the operational phase of the method: aims to determine the production cost of products by accounting the value added units, to create performance indicators able to analyze the evolution of costs, to compute the result per transaction. Operationally, the method involves five steps: measuring the produced value added, computing the cost of a value added unit (UVA), computing the production cost of a sale and of its result, analyzing sale profitability, creating a management system.

The **UVA method** is a source for improving the profit, providing an important support when making operational and strategic decisions. "*The main contribution of the*

UVA method is allowing accuracy in cost assessment, having no competition among other costing methods in the sense of considering 90% of the enterprise's expenditure as direct expenses"[37].

The UVA method puts billed costs and revenue against each other in order to calculate the resulted profit, which allows identifying the key processes for the survival of the entity.

6. Conclusions

In the last decade, the economic literature of developed countries recorded a genuine revolution in terms of costing. Given the context of the major transformations that occurred in the configuration of the current economic environment, the management process should provide solutions in order to keep the entity in the economic environment.

The classic methods are oriented towards the **past,** the provided information having an historic feature, without paying to much attention to forecasts. The real full cost of a product is determined after the whole process ends, after all the expenses related to this process were accounted.

Modern costing methods bring more to the art of costing and redefine a basic principle that should govern the activity of any entity, namely that any decision should be translated in terms of costs, and the costing method is important in substantiating efficient and operational decisions.

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NATIONAL AND INTERNATIONAL PERSPECTIVES ON THE QUALITY OF ACCOUNTING INFORMATION[38]

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Abstract: : The primary objective of general purpose financial reporting is to provide high-quality financial information about the reporting entity, useful for economic decision making. Qualitative characteristics of financial statements are the basic attributes that make sense of usefulness of accounting information. In the normalization and accounting doctrine, criteria for defining the concept of quality of accounting information are not identical, their selection and ranking being different. Our research aims to achieve a comparative analysis of the manner in how are discussed the qualitative characteristics of information contained in the financial statements in different referentials accounting - American, international, those of several countries in Europe and the Romanian.

JEL classification: M41, M48

Key words: qualitative characteristics, relevance, reliability, understandability, comparability, IASB, FASB

1. INTRODUCTION

We live in an age in which the globalization manifests itself more and more accentuated in all the areas of activity, storing information being essential for basing any decision. Accounting, as a language of business, models the information in the form of syntheses, some of which are public, and others are confidential. Their core is the financial statements, which are the most important part of the financial reporting process and at the same time, the main source of financial and accounting information for those interested.

The primary objective of general purpose financial reporting is to provide high-quality financial information about the reporting entity, useful for economic decision making. Providing high quality financial reporting information is important because it will positively influence existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit (IASB, 2010).

2. RESEARCH METHODOLOGY

Our research aims to achieve a comparative analysis of the manner in how are discussed the qualitative characteristics of information contained in financial statements

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in different referentials accounting - American, international, those of several countries in Europe and the Romanian. The study assumes that the information in the financial statements underlies the economic decisions of users, so their quality is very important. The research methodology used to develop the article contains only qualitative methods. The research approach consisted in the analysis and synthesis of accounting regulations developed by national and international accounting normalizes related to the topic analyzed: the FASB's *SFAC no. 2 - Qualitative Characteristics of Accounting Information* (amended in 2008), the IASB's *Framework for the Preparation and Presentation of Financial Statements*, the new common document of IASB and FASB - *Conceptual Framework for Financial Reporting*, the *Fourth European Directive on the annual accounts of certain types of companies* , the french *Plan Comptable Général*, the spanish *Plan General de Contabilidad,* the british Statement of Principles for Financial Reporting and the Romanian accounting rules. At the same time, to illustrate certain studied aspects, we have proceeded to their representation in a personal manner in a graphical form.

3. THE QUALITY OF ACCOUNTING INFORMATION IN AMERICAN PERSPECTIVE

The need for ensuring the quality of the financial information has been felt in the United States of America, after the economic, financial and stock market crisis from 1929-1933. Among its causes are included the insufficient and hard to read informing of the investors. As a result, the U.S. regulatory institutions were concerned, first, to define rules that correspond to the best accounting practices. These rules are now the Generally Accepted Accounting Principles (GAAP), which must be respected by all the U.S. companies. In parallel, the regulatory bodies performed a theoretical analysis of the fundamental principles, with the purpose of explaining those with an essentially empirical genesis and on which it was difficult to reach agreement. The result of that analysis was the FASB's conceptual framework. One of its component studies, ***SFAC No. 2 - Qualitative Characteristics of Accounting Information***, presents and ranks the qualities that must have the accounting information. This text is an important reference in the field because it was restarted in other conceptual frameworks (Colasse, 2007, p. 545).

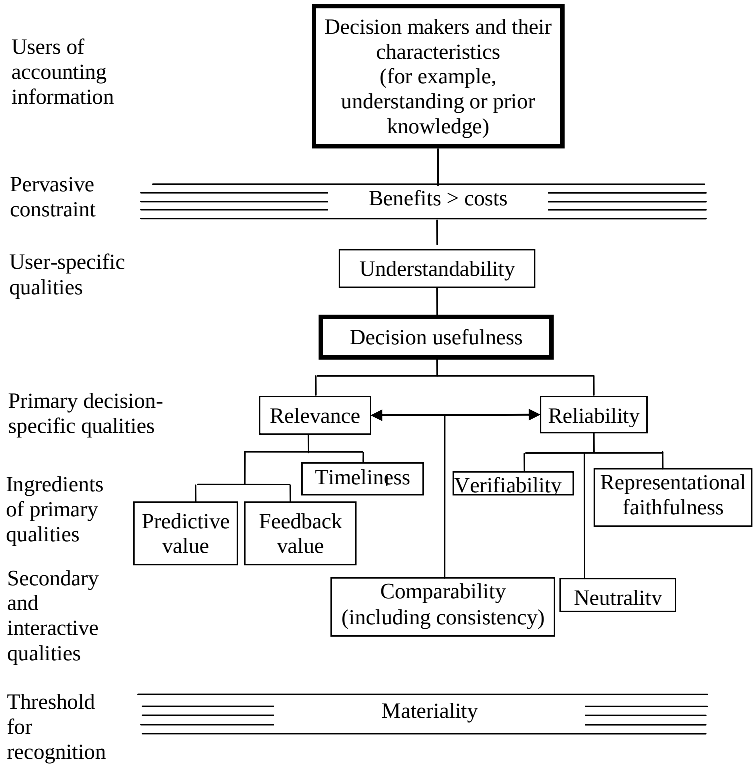
FASB recognizes a wide range of quality characteristics (FASB, 2008): usefulness for decision making, relevance, reliability, timeliness, predictive value, retrospective value, verifiability, neutrality, representational faithfulness, prudence (conservatism), continuity, materiality, the balance between benefits and costs, completeness, no elements leading to misinterpretation, intelligibility, comparability (figure no 1) .

Usefulness for decision making is the most important characteristic of the information. It is ensured by relevance and reliability, qualities considered primary; these are linked through a secondary quality, the comparability.

Relevant information for decision making allows decision maker to predict events, to confirm or correct perspective. Relevance is achieved if the information provides knowledge about past (it has *feedback value*) or about future (it has *predictive value*) events. Usually, information does both at once, because knowledge about the outcome of actions already taken will generally improve decision makers' abilities to predict the results of similar future actions. An information loses its relevance if it arrived late. This is another characteristic of minor importance, namely *timeliness*, which means that information can be used when necessary. By itself, the timeliness does not make from a usual information a relevant one. However, it must be available before losing the ability to influence the decision-maker.

In interpreting the ***reliability*** is assumed that the financial statements are in fact abstractions of business activities, a simplified form of there. To be credible (reliable), accounting reports should depict the significant financial relations of the firm. Information is reliable when it is verifiable, neutral and provides a faithful representation. To offer a *faithful representation* it must thoroughly reflect what is happening in reality. *Verifiability* is a secondary quality of the reliability which implies the possibility to control the reality of the information. Also, the accounting communication shall be *neutral*, i.e. not influencing the behavior in a specific direction, to encourage the group interests.

Comparability, which includes the *consistency*, allows users to notice similarities and differences either between different entities for the same period of time, either for the same entity between different periods of time.



Source: (FASB, 2008)

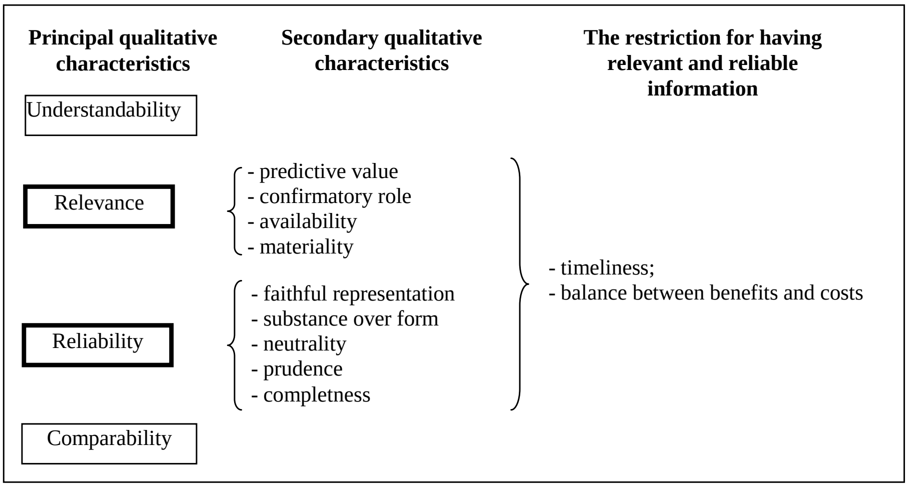
Figure no. 1 - Qualitative characteristics of accounting information in vision of FASB (until 2010)

The qualitative characteristics of useful accounting information are subject of to two ***restrictions***: ***the materiality*** and ***the cost-benefit relationship*** (benefits > costs). An information element is important and must be reported if it is quite significant to have an effect on the decision maker. Materiality requires the intervention of the professional judgment. The relative size of an information element depends on the precision with which it can be estimated and on its nature. Providing accounting information is recommended, in principle, only if the benefits obtained from its utilization exceed the costs generated by their production.

4. QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION IN VIEW OF THE IASB

According to the ***Framework for the preparation and presentation of financial statements*** of the IASB, the analysis of the qualitative characteristics of accounting information is carried out around four vectors (IASB, 2001): understandability, relevance, reliability and comparability. These characteristics considered principal are supported by several related attributes. At the same time, the framework analyzes the restrictions which the financial information must comply for answering to the two fundamental qualities (of the four principals): relevance and reliability (figure no. 2).

In terms of ***understandability***, the accounting reports should be easily accessible to the users, given that they possess a good knowledge of economic activities and accounting and have a willingness to study the information with reasonable diligence. However, information which express complex situations and, being relevant, are presented in the accounting documents, should not be excluded, where they are hardly intelligible to certain users.



Source: own processing after (IASB, 2001)

Figure no. 2 - Qualitative characteristics of accounting information in vision of IASB (until 2010)

To be useful, information must be ***relevant*** to the decision-making needs of users. Information is relevant when it influences the economic decisions of the users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. The adjacent qualities: *predictive value, confirmatory role, availability* and materiality are the ingredients of relevant information. The relevance of information is affected by its nature and materiality. *The materiality* of information is determined by reference to the consequences of their failure or inaccuracy on economic decisions based on the financial statements. It leads to a threshold or a point of separation in financial information difficult to assess, the use of professional judgment being stringently required.

Information is ***reliable*** when it has no errors or elements leading to misinterpretation; so the users can trust that it offers a faithful representation of the transactions or other events. The secondary qualities related to the reliability are: *faithful representation*, primacy of the economic substance to the legal form (*substance over form*), *neutrality*, *prudence* and *completeness* are the conditions of a reliable representation.

The ***comparability*** involves two dimensions: the comparability over time and the comparability in space of the financial statements (between different enterprises). An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. But, the need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards.

The restrictions that must be followed for having relevant and reliable information refers to: ***timeliness; balance between benefits*** resulted from the utilization of the information and ***costs*** of its obtaining; ***balance between qualitative characteristics; true and fair view***.

In the convergence process initiated by IASB and FASB, it was developed the project of a common conceptual document, entitled "***Conceptual framework for financial reporting***". Until now, two chapters have been completed: Chapter 1 "The objective of general purpose financial reporting", and Chapter 3 "Qualitative characteristics of useful financial information". According to this regulation, the useful financial information must be relevant and faithful represent what it wants to represent. Usefulness of the information is enhanced if it is comparable, verifiable, timely and understandable (IASB, 2010).

Thus, the qualitative characteristics are divided into two categories (figure no. 3): fundamental characteristics - relevance and faithful representation – and enhancing characteristics - comparability, verifiability, timeliness, understandability. These qualitative characteristics of useful financial information are applicable to information provided in financial statements and to financial information provided by other means.

Relevant information, which when is used can make the difference between the decisions of the users must have *predictive value* and / or *confirmatory value*. This means that accounting information must be able to be employed by users in making their own predictions or to provide feedback about (confirm or change) previous evaluations. Directly related to the relevance is *the materiality*, which refers to the nature or magnitude, or both, of the items covered by information, in the context of an individual entity's financial report. So, information is material if its omission or misstating might influence the decisions that users take based on the financial information about a specific entity.

For offer a ***faithful representation*** of the economic reality, financial information must be complete, neutral and free from error. *Complete* is the information that includes all the descriptions and explanations necessary for a user to understand the economic phenomenon presented. *Neutral* information is not slanted, weighted, emphasized, de-emphasized or otherwise manipulated. But it does not mean that neutral information has no purpose or no influence on the behavior of its users. On the contrary, relevant financial information is capable making a difference in users' decisions. *Free from error* information means that there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process.

Fundamental characteristics
- Relevance
  - predictive value;
  - confirmatory role;
  - **materiality;**
- Faithful representation
  - completness;
  - neutralitate;
  - lipsa erorilor.

Enhancing characteristics
- Comparability
- Verificability
- Timeliness
- Understandabillity

General restriction: benefits > costs

Source: own processing after (IASB, 2010)

Figure no. 3 - Qualitative characteristics of accounting information in vision of IASB and FASB (since September 2010)

Because, neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions, information must be both relevant and faithfully represented if it is to be useful. However, under the new framework of IASB, these characteristics should not be overrated.

When there are two or more ways, considered as relevant and accurate, to describe an economic phenomenon, the enhancing qualitative characteristics are those which help to choose one of them. Therefore, comparability, verifiability, timeliness and understandability increase the usefulness of the information that already fulfils the fundamental characteristics. The enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or not faithfully represented. Comparability and understandability are two of the four principal qualitative characteristics of the old framework, but in this new perspective they are considered enhancing qualities. ***Comparability*** enables users to identify and understand similarities in, and differences among, items. *Consistency* is related to comparability and refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. According to IASB's opinion, *comparability is not equivalent to uniformity*. That means that for offering comparable information, similar issues must be presented in a similar manner and different issues to be presented differently. Another indication of the Framework considers *the elimination of alternative treatments* for various events and transactions: "Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability". ***Verifiability*** helps assure users that financial information faithfully represents the economic phenomena it purports to represent. Information is ***timely*** if it is available to decision-makers in time to be capable of influencing their decisions. Classification, characterization and presentation of the information clearly and concisely make these ***understandable***. Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyze the information diligently. If the information related to various complex phenomena would be excluded from the financial statements, this could make them easier to understand. However, those reports would be incomplete and potentially misleading. From this reason the international accounting standardization body recommend to call help from an adviser for understand information about complex economic phenomena.

Also in this version of the conceptual framework, the IASB retains ***the cost constraint*** of useful financial information. Preparing financial reporting generates costs, so it is important that they are justified by the benefits obtained from the disclosure of the information.

According to the international standardization body, the quality financial information helps capital providers in adopting the best decisions, reason which determines more efficient financial markets functionality and a lower cost of capital throughout the economy.

5. QUALITY OF THE INFORMATION PRESENTED IN FINANCIAL STATEMENTS ACCORDING TO THE ACCOUNTING RULES OF SOME EUROPEAN COUNTRIES

In the **European Directives**, there is no*thing explicitly mentioned on the quality of the information* contained in financial statements. However, some qualitative characteristics are present in European standards with other names. Faithful representation has a correspondent in *true and fair view*, the objective of the annual accounts, which, this time, is obtained by applying the provisions of the Directive: “the annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss. They shall be drawn up clearly and in accordance with the provisions of this Directive.” Comparability is found in the Fourth Directive as the *principle of consistent methods* – “the methods of valuation must be applied consistently from one financial year to another” - and *prudence* is also present as a general principle “valuation must be made on a prudent basis” (ED 4, art. 31).

In **France**, a country with a continental accounting system, the ***Plan comptable général (PCG)*** does not refer explicitly to the characteristics that must have the information presented in annual financial statements. In Chapter 2 of Title 1 are, however, listed four principles that contribute to achieving the objective of true and fair view and that can be assimilated to qualitative characteristics of accounting information: *regularity, sincerity* - “accounting is to adhere to rules and procedures in force which are to be faithfully applied” -, *prudence* - “accounting is to be established on the basis of prudent assessments, to avoid the risk of transferring to following periods present uncertainties liable to affect adversely net assets and profit or loss of the entity” -, *consistency* - “consistency of accounting information over successive periods implies continuity in the application of rules and procedures” (PCG, 1999).

In **Spain**, although this country has a continental accounting system, in the first part (Marco Conceptual de la Contabilidad) of the ***Plan General de Contabilidad (PGC)*** from 2007 are presented the requirements for information to be included in the annual accounts. These are, practically the qualitative characteristics of the information. They fall into two categories: principal - relevance and reliability - and related - comparability and clarity (PGC, 2007).

Information is ***relevant*** when it is useful for making economic decisions, that is, when it helps to evaluate past, present or future events, either to confirm or correct past evaluations. In particular, to comply with this requirement, the annual accounts must adequately present the risks with which the company is confronted.

Information is ***reliable*** when it is *free from material error* and *neutral* (free from bias), and users can be confident that it is the *true and fair view* of what it purports to represent. A quality derived from the reliability is *integrity,* which is reached when the financial information contains in complete form all data that may influence decision-making, without any omission of material information.

Comparability must be extended both to the annual accounts of a company over time and to those of different companies at the same time and for the same period of time. It should allow comparing the situation and profitability of companies, and involves a similar treatment for the transactions and other economic events that occur in similar circumstances.

Clarity implies that, on the basis of a reasonable knowledge of economic activities, accounting and corporate finance, users of the financial statements through a diligent examination of the information submitted, can forming judgments that will facilitate decision making.

Also other qualitative characteristics take the form of general principles: *prudence, materiality, substance over form*. *True and fair view* is the objective of the financial statements, which must be drawn clearly so that the information provided is understandable and useful to the users in making their economic decisions. True and fair view is obtained by applying systematically and regularly the legal provisions.

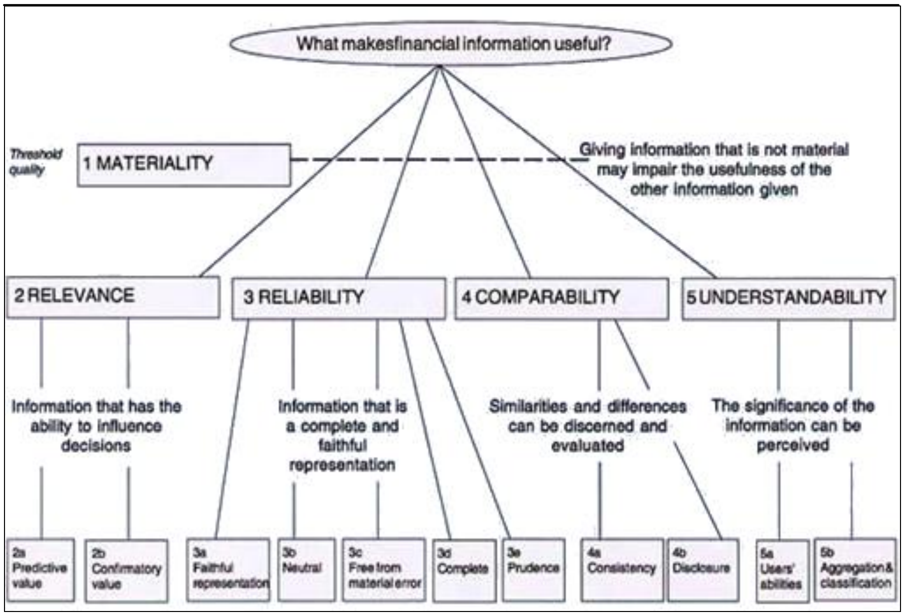
In **United Kingdom**, a country with Anglo-Saxon accounting system, chapter 3 of the ASB's revised ***Statement of Principles for Financial Reporting*** identifies the qualities which financial information should have (ASB, 1999). There are four main qualities, each with several related qualities (figure no. 4).

Materiality is, therefore, a threshold quality that is demanded of all information given in the financial statements. Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case.

Information is ***relevant*** if it has the ability to influence the economic decisions of users and is provided in time to influence those decisions. Relevant information has predictive value (if it helps users to evaluate or assess past, present or future events) or confirmatory value (if it helps users to confirm or correct their past evaluations and assessments).

Information is ***reliable*** if: it can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, it is neutral (free from deliberate or systematic bias), it is free from material error, it is complete within the bounds of materiality and in its preparation under conditions of uncertainty, a degree of prudence has been applied in exercising judgment and making the necessary estimates.

Information in financial statements therefore needs to be ***comparable*** — at least as far as is possible. Furthermore, to help users to make comparisons, such information needs to be prepared and presented in a way that enables users to discern and evaluate similarities in, and differences between, the nature and effects of transactions and other events taking place over time and across different reporting entities. This can usually be achieved through a combination of consistency and disclosure of accounting policies.



Source: (ASB, 1999)

Figure no. 4 - Qualitative characteristics of accounting information in vision of ASB (UK)

Information provided by financial statements needs to be ***understandable*** – in other words, users need to be able to perceive its significance. Whether financial information is understandable will depend on three factors: *the way in which the effects of transactions and other events are aggregated and classified, the way in with the information is presented, the capabilities of users*.

It is not always possible to reconcile conflicts between the characteristics of relevance, reliability, comparability and understandability, and a trade-off may be necessary. Some examples given in the Statement are conflicts involving:

a) it will usually be appropriate to use the information that is the most relevant of whichever information is reliable;

b) the competing demands of neutrality and prudence are reconciled by finding a balance that ensures that the deliberate and systematic understatement of gains and assets and overstatement of losses and liabilities do not occur.

c) information that is relevant and reliable should not be excluded from the financial statements simply because it is too difficult for some users to understand.

6. QUALITY OF ACCOUNTING INFORMATION IN ROMANIAN RULES

In Romanian accounting, the first references to the quality of information provided to users of financial statements have been made in *Order of the Ministry of Public Finances no. 94/2001 for approval of Accounting Regulations harmonized with Fourth Directive of the European Economic Community and with International Accounting Standards*. In this regulation has been fully taken the Framework for the preparation and presentation of financial statements of IASB. So, the quality and usefulness of financial information were dependent on the four quality characteristics taken from the international accounting rules: *understandability, relevance, reliability and comparability*. The regulation specify: “the main quality characteristics application normally has as result the preparation of the financial statements which generally reflect a true and fair view of the enterprise situation" (OMFP 94/2001, par. 46).

The Order of the Ministry of Public Finances no. 1752/2005 for approval of Accounting Regulations in compliance with European Directives does not refer to the quality of accounting information, stating only that "annual financial statements give a *true and fair view* of the assets, liabilities, financial position, profit or loss of the entity" (OMFP 1752/2005, par. 9).

In ***the Order of the Ministry of Public Finances no. 3055/2009 for approval of Accounting Regulations in compliance with European Directives***, the Romanian standardization body takes over again, the four qualitative characteristics from Framework for the preparation and presentation of financial statements of IASB. So, the attributes that determine the usefulness of accounting information are: understandability, relevance, reliability and comparability (OMFP 3055/2009, para. 23).

The ***understandability*** of the information provided by the financial statements assumes that they must be easily understood by the users. For this purpose, it requires that users possess reasonable knowledge of the development of business and economic activities, of the accounting concepts and they have a willingness to study the presented information with due care. However, the information about complex problems that should be included in the financial statements because of their relevance in making economic decisions should not be excluded from them just for the reason that it would be too difficult to understand for some users.

In order to be useful, the information must be ***relevant*** for the decision making of the users. Information is relevant when it influences the economic decisions of the users, helping them to evaluate past, present or future events, to confirm or to correct their previous evaluations.

The relevance of the information depends on its *nature* and *materiality* level. In some cases, the nature of the information is enough in itself to determine its relevance. In other cases, both the nature and materiality are important. Information is material if its omission or wrong presentation can influence economic decisions which users take based on the annual financial statements.

In order to be useful, information must be ***credible***. The credibility of the financial information is given by the lack of significant errors and by its impartiality. In concrete terms, for being credible, the information provided in annual financial statements must:

a) *faithfully represent* the transactions and other events that it has proposed to represent, or which it is expected, reasonably, to represent;

b) reflects the substance and economic reality of events and transactions, and not only their legal form (*substance over form*);

c) be *neutral*, meaning influence free; the financial statements are not neutral if, by selecting and presenting the information, they influence the decision making or the formulation of a reasoning to achieve a predetermined result or goal.

d) respect the principle of *prudence*, as meaning that should be included a degree of caution in the exercise of judgments necessary to make estimates required in conditions of uncertainty, so that assets and income being not overstated and liabilities and expenses being not understated.

e) be *complete*; an omission can make the information to be false or misleading and thus to have no credible character and become poor in terms of relevance.

Comparability of the information contained in the financial statements assume that their users can make comparisons both over time, to identify trends in one entity's financial position and performance, and among companies, to evaluate their financial position and performance. Thus, measurement and presentation of the financial effect of those transactions and events should be made in a consistent manner over time and for different entities. An important consequence of comparability of the information is that users must be informed about the accounting policies used in preparing financial statements, about any changes in these policies and the effects of such changes.

In the Romanian rules too are those two ***restrictions***: in order to be relevant and credible, the information must be ***timely*** for decision making of users and the ***benefits*** obtained as result of using the information must be ***higher than it costs***.

Between the qualitative characteristics of financial accounting information must be a proper *balance*, which obviously is a matter of professional judgment.

As mentioned above, the European directives do not directly refer to these qualitative characteristics, and this enables us to consider that, from this point of view (and not only), the current national accounting rules although intends to comply only with EU directives are, in fact, a combination of the European and the international accounting regulations.

7. Conclusions

Currently, the financial accounting information underlies the investment decisions, their accuracy and relevance influencing decisively the achievement of the optimal level of expected results. Annual financial statements have become an important source of information, being analyzed with particular attention by all the participants of capital markets. In recent decades, accounting documents have experienced a series of major changes in form and content. The jurisdiction and rules governing financial markets have increasingly influenced the characteristics of accounting information.

Qualitative characteristics of financial statements are the basic attributes that make sense of usefulness of accounting information. In the normalization and accounting doctrine, criteria for defining the concept of quality of accounting information are not identical, their selection and ranking being different. Qualitative characteristics of accounting information were first formulated and are specific to the conceptual frameworks from Anglo-Saxon accounting systems that give priority to safeguarding the interests of investors. Strong argument is that of the investor capital without employment, no economy can become efficient. To determine them to invest into a business is necessary an adequate protection. However, neither in the Anglo-Saxon accounting the hierarchy of qualitative characteristics is not the same. Thus, in the common Conceptual Framework for Financial Reporting of IASB and FASB exist: fundamental characteristics - relevance and faithful representation – and enhancing characteristics - comparability, verifiability, timeliness, understandability. The British ASB considers that are four main qualities – relevance, reliability, comparability and understandability -, each one with several related qualities. In his opinion, materiality is a threshold quality that is demanded of all information given in the financial statements.

In the Fourth Directive and in the countries with continental accounting systems, the characteristics that must comply the accounting information presented in annual financial statements are not defined. It is considered that for providing a true and fair view of the company’s situation is sufficient the compliance with legal requirements. As a result of the accounting harmonization, also in accounting standards of Spain and Romania, countries with continental accounting system, were taken qualitative characteristics of financial information from the Framework for the Preparation and Presentation of Financial Statements of IASB: understandability, relevance, reliability and comparability. However, in the accounting regulations of these countries is kept the requirement from the European Directive under which the true and fair view is the objective of financial statements and it is obtained by applying systematically and regularly the legal provisions.

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EVALUATION OF FINANCIAL PERFORMANCE OF BANKING ENTERPRISES; THE CASE OF CONSTRUCTION AND BUSINESS BANK OF ETHIOPIA

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Abstract: This study is proposed to evaluated the financial performance of Construction and Business Bank (CBB) of Ethiopia. The study emphasized on financial performance measurement ratios such as asset utilization/efficiency ratios, deposit mobilization, loan performance, liquidity ratio, leverage/financial efficiency ratios, profitability ratios, solvency ratios and coverage ratios to evaluate the bank's financial performance. For this study, the researchers dominantly relied on secondary data; eight years (2002/2003 to 2009/2010) from most recent audited financial statements of the bank. Primary data was also colleted by the researchers using unstructured personal interview from key officials; the Planning and Business Development manager and the finance section manager and with the aid of observation as well. The data were cross validated with information from secondary sources; eight years financial statements and other relevant records so as to avoid premature conclusions. Findings of the study revealed that the bank's financial performance had been almost progressing over the operational periods considered for the study. It is concluded after trend analysis that some important financial ratios computed for analysis of the financial performance of the company are in a going up pattern excluding loan deposit ratio, assets turn over ratio and the long term debt to equity ratios. The commendable performance in profitability of the bank is attributable to such factors as, relocation of the some of the banks outlying branches to better bankable areas and the gradual penetration of the bank in to foreign banking activities. The bank achieved significant hike in revenues over the periods while the cost of operation showed only slight increase comparatively with the increase in revenues. The major problems to be cited for the downside performance in some other ratios were resulted from inherited monopolistic operation system of the bank during the command economic system for which the bank failed to take remedial action and subsequently reported significant declines in receivables and failed to keep available resources revolving following the 1991 semi-liberalization economic policy reform by Ethiopian government that invited competitors(private banks) to the market in the areas previously under monopoly by the share company. The insensitivity of responsible financial experts towards timely observation of financial performance measures and remedial actions had also contributed its part.

JEL classification: G21, G28

Key words: banking enterprises, evaluation, financial, performance

1. INTRODUCTION

Organizational control is the process whereby an organization ensures that it is pursuing strategies and actions which will enable it to achieve its goals. The measurement and evaluation of performance are central to control and means posing four basic questions: What has happened? Why has it happened? Is it going to continue? What are we going to do about it? The first question can be answered by performance measurement. Management will then have to hand far more useful information than it would otherwise have in order to answer the other three questions. By finding out what has actually been happening, senior management can determine with considerable certainty which direction the company is going in and, if all is going well, continue with the good work. Or, if the performance measurements indicate that there are difficulties on the horizon, management can then lightly effect a touch on the tiller or even alter course altogether with plenty of time to spare

As to the selection of a range of performance measures which are appropriate to a particular company, this selection ought to be made in the light of the company's strategic intentions which will have been formed to suit the competitive environment in which it operates and the kind of business that it is. For example, if technical leadership and product innovation are to be the key source of a manufacturing company's competitive advantage, then it should be measuring its performance in this area relative to its competitors. But if a service company decides to differentiate itself in the marketplace on the basis of quality of service, then, amongst other things, it should be monitoring and controlling the desired level of quality. Whether the company is in the manufacturing or the service sector, in choosing an appropriate range of performance measures it will be necessary however to balance them, to make sure that one dimension or set of dimensions of performance is not stressed to the detriment of others. The mix chosen will in almost every instance be different. While most companies will tend to organize their accounting systems using common accounting principles, they will differ widely in the choice, or potential choice, of performance indicators

Performance Measurement can be best understood through considering the definitions of the words 'performance' and 'measurement' according to the Baldrige criteria: Performance refers to output results and their outcomes obtained from processes, products, and services that permit evaluation and comparison relative to goals, standards, past results, and other organizations. Performance can be expressed in non-financial and financial terms. Measurement refers to numerical information that quantifies input, output, and performance dimensions of processes, products, services, and the overall organization (outcomes). Performance measures might be simple (derived from one measurement) or composite. The challenge for organizations today is how to match and align performance measures with business strategy, structures and corporate culture, the type and number of measures to use, the balance between the merits and costs of introducing these measures, and how to deploy the measures so that the results are used and acted upon. To address this challenge organizations are advised to devise a performance measurement system that provides a set of rules or guidelines for selecting and deploying performance measures. All organizations measure performance to some extent. However, there is a large disparity among organizations in terms of which performance measures are used with many primarily focusing on financial measures. There has however, been a general move away from financial measurement since the early 1980's. This was accelerated in the 1990's and 2000’s by the worldwide acceptance of business excellence models and performance measurement frameworks that addressed all stakeholders' needs.

Financial vs. Non-Financial measures

In many companies in the UK, as in the USA, the familiar cry "everything here is viewed in terms of the bottom line!" can be heard. In this sort of corporate environment, financial indicators remain the fundamental management tool and could be said to reflect the capital market's obsession with profitability as almost the sole indicator of corporate performance. Opponents of this approach suggest that it encourages management to take a number of actions which focus on the short term at the expense of investing for the long term. It results in such action as cutting back on research and development revenue expenditure in an effort to minimize the impact on the costs side of the current year's P & L, or calling for information on profits at too frequent intervals so as to be sure that targets are being met, both of which actions might actually jeopardize the company's overall performance rather than improve it. In general terms, the opponents of "the bottom line school" state that because of the pre-eminence of money measurement in the commercial world, the information derived from the many stages preceding the preparation of the annual accounts, such as budgets, standard costs, actual costs and variances, are actually just a one dimensional view of corporate activity. Increasingly, over the past decade, they have been emphasizing that executives should come to realize the importance of the non-financial type of performance measurement

Research in support of this approach has come up with new dictums for the workplace: "the less you understand the business, the more you rely on accounting numbers" and "the nearer you get to operations, the more non-financial performance indicators you realize could be valuable aids to better management"; or "graphs and bars carry much more punch than numbers for the non-financial manager". But there is still a lot of resistance. Executives tend to avoid using multiple indicators because they are difficult to design and sometimes difficult to relate, one to another. They have a strong preference for single indicators of performance which are well tried and which produce ostensibly unambiguous signals. But the new school lays great emphasis on the fact that multiple indicators are made necessary by the sheer complexity of corporate activity

William Davids (2004) identified five types of financial performance measures: Liquidity, Solvency, Profitability, Financial efficiency and Repayment capacity.

Liquidity: **-** refers to the degree to which debt obligations coming due in the next 12 months can be paid from cash or assets that will be turned into cash. This is measured by the current ratio and the amount of working capital. A more thorough analysis of liquidity can be made with a cash flow budget.

Solvency**: -** refers to the degree to which all debts are secured, and the relative mix of equity and debt capital used by the firm. The total debt-to-asset ratio is one of several ratios used to measure solvency, all of which are based on the same relationship of assets, liabilities and net worth. The primary measure of solvency is a net worth statement

Profitability: refers to the difference between income and expenses. One important measure of profitability is net farm income. Annual rates of return on both equity capital and total assets can be calculated, also, and compared to interest rates for loans or rates of return from alternative investments. The primary measure of profitability is an income statement

***Financial efficiency:* -** ratios show what percent of gross from revenue went to pay interest, operating expenses, and depreciation, and how much was left for net farm income. The asset turnover ratio measures how much gross income was generated for each dollar invested in land, livestock, equipment and other assets

Repayment capacity: - measures show the degree to which cash generated from the firm and other sources will be sufficient to pay principal and interest payments as they come due

Tarawneh (2006) found that the bank with higher total capital, deposits, credits, or total assets does not always mean that has better profitability performance. Financial performance of the banks was strongly and positively influenced by the operational efficiency and asset management, in addition to the bank size. According to Jahangir and etal. (2007), the traditional measure of profitability through stockholder's equity is quite different in banking industry from any other sector of business, where loan-to-deposit ratio works as a very good indicator of banks' profitability as it depicts the status of asset-liability management of banks. But banks' risk is not only associated with this asset liability management but also related to growth opportunity. Smooth growth ensures higher future returns to holders and there lies the profitability which means not only current profits but future returns as well. So, market size and market concentration index along with return to equity and loan-to-deposit ratio grab the attention of analyzing the banks' profitability. X. Chen et all (2005) applies frontier analysis (X-efficiency) using DEA to examine the cost, technical and a locative efficiency of 43 Chinese banks over the period 1993 to 2000. In this paper the input used are interest expenses, non-interest expenses (which includes the price of labor), price of deposits (interest paid on deposits divided by deposits), and the price of capital (non-interest expenses are divided by fixed assets); Outputs used are loans, deposits and non-interest income. Results show that the large state-owned banks and smaller banks are more efficient than medium sized Chinese banks. In addition, technical efficiency consistently dominates the locative efficiency of Chinese banks.

Chowdhury (2002) observed that the banking industry of Bangladesh is a mixed one comprising nationalized, private and foreign commercial banks. Many efforts have been made to explain the performance of these banks. Understanding the performance of banks requires knowledge about the profitability and the relationships between variables like market size, bank's risk and bank's market size with profitability. Indeed, the performance evaluation of commercial banks is especially important today because of the fierce competition. The banking industry is experiencing major transition for the last two decades. It is becoming imperative for banks to endure the pressure arising from both internal and external factors and prove to be profitable. siddique and Islam (2001) pointed out that the Commercial Banks in Bangladesh, as a whole, are performing well and contributing to the economic development of the country. The average profitability of all Bangladeshi banks collectively was 0.09% during 1980 to 1995 which means that a profit of TK 0.09 was earned by utilizing assets of TK 100. In every aspect of profit, banking sector contributes the national economy as well as to the individual organization. Despite overall growth of the banking sector being positive, the performances of different categories of banks were not equally attractive.

Brief History of the Bank

Construction and Business Bank (CBB) is the successcer of Housing and Saving Bank which was established by the merger of two financial institutions, the Savings and Mortgage Corporation of Ethiopia S.C (SMC) and the Imperial Savings and Home ownerships Public association (ISHOPA), which were nationalized in 1975 at the onset of the socialist era of Ethiopia.

The savings and Mortgage Corporation of Ethiopia S.C was established in July 1965 with a capital of birr 3,000,000. Share holders were the Commercial Bank of Ethiopia, Ethiopian Airlines, Cement Corporation, Ethiopian Electric light and power authority and Agricultural and Industrial Development Bank.

And the Imperial Savings and Home ownership public association was founded on April 30, 1962 with a capital of Birr 1,000,000 out of the total 50% of the capital was emanated by the Ethiopian Government in the form of capital donation and remaining 50% by the US government in cash.

The main reasons for the establishment of Housing and savings bank (HSB) were to encourage and further accelerate the rate of housing development for the improvement of the living standard of urban dwellers. In 1992, an economic reform program was initiated by the government in order to stabilize the economy and deregulate economic activity characterized by central planning. As a result, in the financial sector, new laws providing the autonomy of the National Bank, which is the central bank of the country and the establishment of private banks and insurance companies by domestic private investors, were promulgated. In connection to this, Housing and Saving Bank become Construction and Business Bank in September 1994. Consequently, Construction and Business Bank prepared a series of internal restructuring plans covering all aspects of its operations. Accordingly, CBB has ventured into commercial banking operations. In the effort to develop itself into a full-fledge universal bank, the bank introduced new products/services such as short and medium term credit facilities, foreign banking and foreign bureau services and western union money transfer services to the existing lines of business, commercial and residential construction financing. The bank was converted to share company as of September 2001.

Statement of the Problem

Ethiopian Construction and Business Bank (CBB) is a government owned enterprise engaged in the banking services required by users. Till the economic system transformation, the change from command economic system to free market economic system, the bank had been facing little challenge for there were only two other banks operating along side. At that time, there were no competitors in the market in engaged in the provision of similar services. Thus, it had been the monopoly supplier setting its own price for the services to be provided without interference of competitors in the area generating revenues in hundreds of millions resulting in tens of millions of profit. Since the semi liberalization of economic policy reform in 1991, however, the bank was forced to operate in a free market economic system. In free market economy, the financial performance of enterprises is dependent on how far they are competent in the market as well as their capacity to make the available assets revolving. In other words, having sufficient working capital is vital for running ordinary operational activities. The importance of working capital is even more rationalized for service giving enterprises like Construction and Business Bank for the fact that they need to make millions of Birr remittances to depositors and borrowers so as to keep in touch with customers. Otherwise they will loose sales of millions of Birr and also probably their customers for ever to competing banks. To this end, Construction and Business Bank (CBB) had not given emphasis to keeping the available assets revolving because of its strategy of voluminous loaning for real estate expansion. This resulted in huge working capital deficit as compared to long-term advances and loans that overshadowed the net income as well as the profitability of the company.

The financing strategies and policies of enterprises would have impact up on the capital structure and financial performance of their operational activities. For instance, a company having huge amount of debts maturing during the current period should generate sufficient income so as to cover the maturing interest and principal. Otherwise, the company will be forced to finance its debts from its employed capital and this will inevitably affect the financial performance of the company for the subsequent periods. With this regard the capital structure of Ethiopian Construction and Business Bank (CBB) has been dominated by credit financing; both short term and long term.

So, this analytical study basing its inception in these observed facts would try to foresee the financial performance of the bank and will opt for appropriate operational and financing strategies suitable in line with the banking realm.

2. OBJECTIVES OF THE STUDY

This analytical survey on evaluation of the financial performance of Construction and Business Bank (CBB) is intended to evaluate the general performance of the bank in financial terms. The survey has the following specific objectives:

- To evaluate and critically analyze the deposit mobilization and loan performance of the bank.
- Assessing and evaluating the working capital structure and liquidity of the bank.
- Evaluating the profitability of the bank.
- General assessment about the capital structure and repayment of debt.
- Analyzing the solvency and financial efficiency as well as the suitability of the financing strategies adopted by the bank to efficiently compete in the free market scenario.

Significance of the Study

The researchers hope that this analytical research will play its part in giving the bank's management and users of financial reports birds-eye- view towards the financial performance of the bank. It will benefit Construction and Business Bank (CBB) in selecting appropriate financing and operating strategies so as to become competent and successful in its operational endeavors. It is also an essential input for the decision of users of financial reports of the bank so far as their business transaction with the bank is concerned for. The data used in this study were merely drawn from audited financial statements on longitudinal basis.

The research can also be used as a base line by researchers interested in industrial level financial performance evaluations.

Materials and methodology

This analytical study was conducted in Construction and Business Bank (CBB) which is located in Addis Ababa along side the premises of Commercial College of Addis Ababa.

Data and data collection Techniques

The research was conducted within four weeks time. Both secondary as well as primary data sources are sought by the researchers in conduct of the survey. The principal researchers collected secondary data about the accounting reports of the company deemed essential for the study. The basic collected information needed to compute the financial measures were:

- Asset, liability and equity values were analyzed from audited financial position statements of the bank.
- Scheduled principal and interest payments on long-term debt were compiled from disclosures made to the financial statements.
- Gross revenue, operating expenses and income from other sources and net income data were obtained from the audited financial statements; income statement.

The survey had employed unstructured personal interview with the investment and accounts section manager and the planning and business development managers of the bank. In order to supplement this, actual observation of the bank's financial reports was made by the principal researchers.

The use of these data collection techniques is not without justification. The main objective of employing unstructured interview is to elicit facts depending on the situation encountered at the time of interview. So, here there is a possibility of generating new ideas relying upon the respondents' initiation. The use of observation is in exploring facts about the bank in the view of neutral observers (researchers) that might have been actually hidden by the internal bodies. Incorporation of facts from secondary data sources like company reports, seminar papers, audited financial statements, magazines and annual published materials etc., is to regenerate tangible evidences about the financial performance conditions of the bank.

Sample Design

The researchers emphasized on the head office for it is deemed to provide the bank's overall financial performance. So, in the data collection process this sampled representative functional unit was assumed to impart the essential primary as well as secondary evidences. Officials from each sampled unit; planning and business development, and the investment and accounts managers are called for the in-depth unstructured interview. Regarding secondary data sources, the researchers go beyond the above samples and tried to get non- financial reports and documents through the help of the finance department from planning and business development unit.

Data Presentation, Analysis and Interpretation

After relevant data is compiled, the researchers had computed various financial ratios which are measures of financial performance. The ratios calculated were:

Liquidity ratios: cash ratio, current ratio, and the acid test ratio or the quick ratio.

Profitability ratios: Profit margins before tax and interest ratio, net income ratio, return- on- equity and return- on- investment/return –on- total assets.

Leverage/financial efficiency ratios: loan-deposit ratio, total assets turn over ratio, fixed assets turn over ratio, current asset turn over ratio, long term debt to equity ratio, long term debt to total capital employed and total debt to total capital employed ratio.

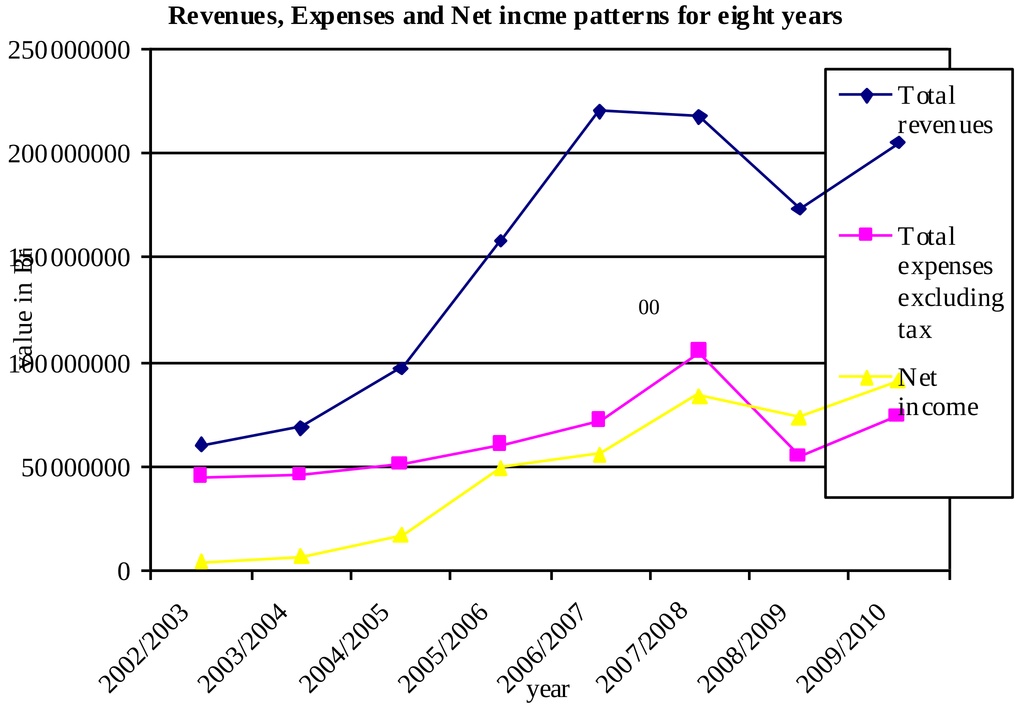
Coverage ratios: only interest coverage ratio was calculated.

The researchers reported the outcomes of their analysis in lieu of the financial performance of the bank reached after ***cross sectional and trend analysis*** of the four years financial statements and unstructured personal interview held with officials of the bank. In the process, the collected primary as well as secondary data values are edited, summarized, categorized, and possible generalizations and inferences were made by the principal researchers so as to minimize premature conclusions and interpretations. As data processing is the critical part of any research regardless of its type, great care and effort have been invested by the investigators to the maximum possible extent.

Lastly, careful analysis of the acquired information was embarked upon to avoid premature conclusion and reach at sound evaluation for recommending purpose in terms of professional assessment of the existing conditions and what must be done. It is unquestionable that the results of the finding have to be communicated to concerned bodies and the community in general.

Data Analysis Results and Discussions

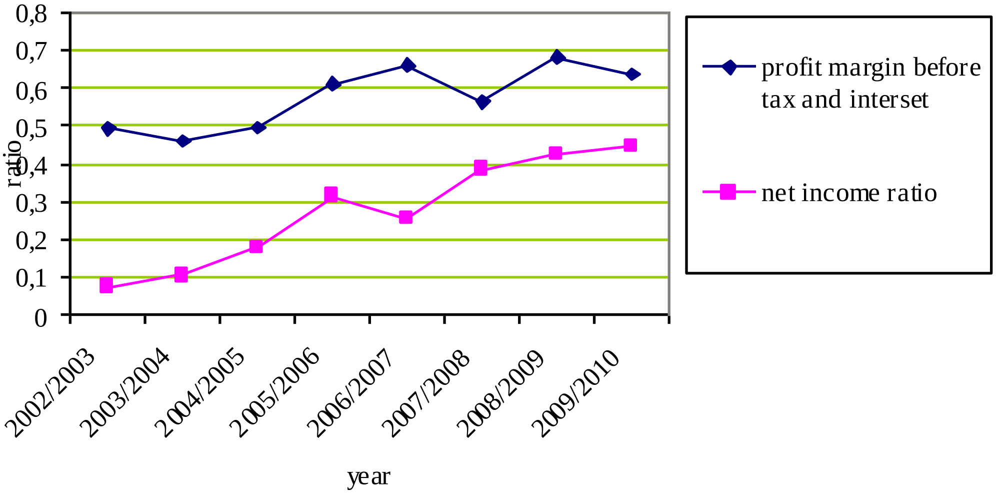
After embarking up on the tangible data sources, the principal investigators have conducted a detailed analysis and interpretation of the data at hand. The general description of the findings was phrased in the proceeding paragraphs.



Source: analysis of income statement/statement of profit and loss

The preceding graph depicts that revenues, expenses and net income were in an increasing trend over the study period commencing 2002/2003 up to 2006/2007. The maximum revenue during the period under study was Birr 221 million recorded in 2006/2007 and the minimum was that of 2002/2003 accounting period. In a similar fashion, the maximum expenses and net income were that of 2007/2008 and 2009/2010 respectively amounting to Birr 105 million and Birr 91,526470 respectively. The result of these data indicates that the revenues and expenses were in the same pattern over the eight years with revenue increasing at higher rates than did the expenses. The hike in revenues of the bank is attributable to the pursue of international banking operations since 2002/2003 while mobilizing the local market as well that resulted in to higher profitability over the years. The relocation of the some of the bank's outlying branches to better bankable areas and the gradual penetration of the bank in to foreign banking activities are the major factors attributable to this commendable performance (*See: Construction and Business Bank Annual Reports Of 2003/2004 and 2005/2006).* From this it can be understood that the company was pursuing the strategy of increasing revenues while decreasing the cost of operation to maximize its profit.

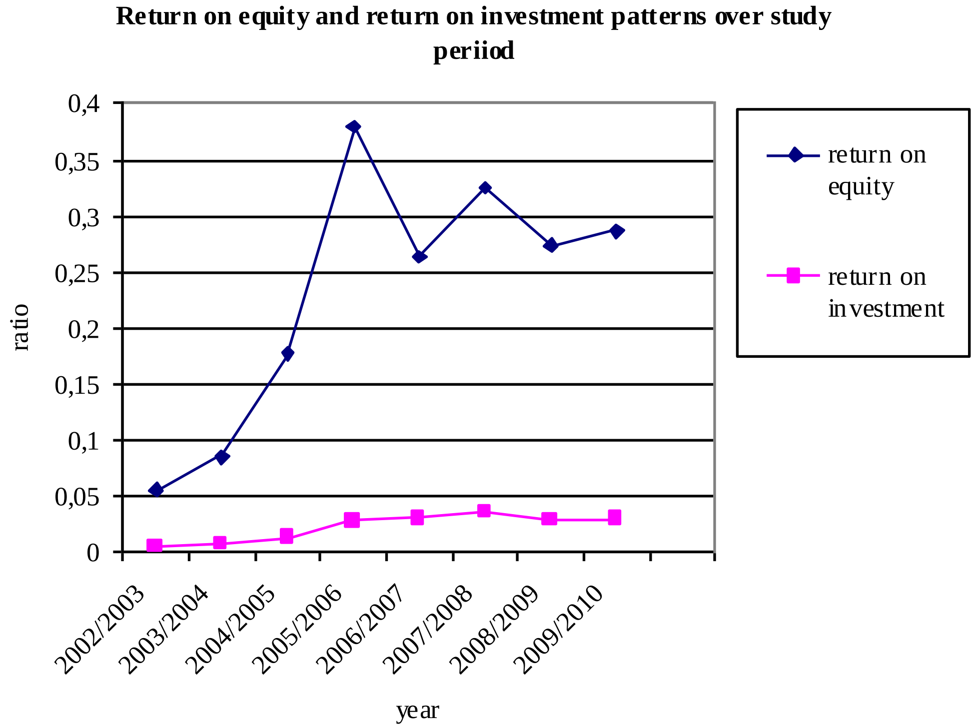
Profit margin before tax and interest and net income ratio on sales



Source: analysis of income statement/statement of profit and loss

The profit margin before tax and interest of the bank as shown in the above chart was in an increasing pattern except for the years 2003/2004 and 2007/2008 when it slightly falls. The profit margin before tax and interest ratio was determined to be 49.35%, in 2002/2003, 66.122% in 2006/2007 and 65.78% in 2009/2010. The increases in profit margin before tax and interest ratios were resulted from the hike in revenues at a greater rate than the operating expenses. That is the profit margin before tax and interest was increasing following the hike in revenues for revenues and expenses were increasing for varying amounts from year to year. From the analysis it can be inferred that the profit margin before tax and interest ratio on sales of Br.1.00 was rising over the periods of this study excluding the aforementioned two periods.

The net income ratio of the bank was also in an increasing trend over the years except for 2006/2007. It was 7.39% in 2002/2003, and 31.48% in 2005/2006 and 44.5974% in 2009/2010. From the analysis of the anatomy of the eight years' income statements, it was determined that both revenues and net income were hiking; both for varying amount. The increases in net income at a higher rate than the increase in revenue lead to the increase in net income ratio. This implies that the bank management is effective in controlling its overhead costs so that increase in revenue contributes to profitability



Source: analysis of income statement/statement of profit and loss

The return on equity of the bank as indicated on the preceding chart was in an increasing fashion because of the fact that the net income was increasing at a higher rate than that of the equity of the bank over the first four years operational periods. After wards the ratio indicates series of fluctuations up to the end of the study period mainly because of fluctuations of the equity balance although the net income has shown rising. The return on equity was 5.45%8 in 2002/2003 and reached 37.95% the maximum of the study period in 2005/2006 after continuous increases period after period. For 2006/2007 operational period the return on equity declined to 26.34% but increased to 32.47% the next period.

Regardless of the increasing balance in total assets over the years (i.e. *from balance sheet of the bank*), the return on investment as shown on the above chart, was in a going up pattern before up to 2007/2008. The ratio of the return on investment was determined to be 0.47% in 2002/2003, 2.75% in 2005/2006 and 3.513% in 2007/2008; the maximum of the study period. Slight decline was observed for the last two years of the study period with return on investment of 2.84% in 2008/2009 and 2.89% in 2009/2010. The slight increases in return on investment in the years were the effect of the increase in net income at comparatively higher rate than the total assets/total investment. It can be implied from this evidence that the management of the bank has been improving its capacity of using the assets investments to generate income.

Table 1. Liquidity Ratio of the Bank over Four Years Period

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Current ratio (CA/CL)	0.4071	0.4829	0.6107	0.4331	0.479145	0.389024	0.506705	0.551508
Quick ratio QR/CL)	0.3486	0.3979	0.4609	0.3643	0.479145	0.389024	0.506705	0.551508
Absolute liquidity ratio (CS/CL)	0.3229	0.3847	0.4516	0.3457	0.276449	0.331888	0.417394	0.447917

Source: analysis of the balance sheet of years; 2002/2003 to 200901/20.

A higher current ratio indicates a good probability that the enterprise can retire current debts. A ratio of 1.5 or higher is a comfortable financial position for most enterprises as suggested by financial management professionals. As it can be seen from the above table the bank's current ratio never hit 1.5 or more values (i.e. the industry ratio) for the periods under study. The maximum amount of the current ratio is 0.6107 for the year 2004/2005. The minimum amount is 0.389 in the year 2007/2008. The interpretation of these ratios which are lower than 1:1 for the entire periods indicates the fact that the bank has been operating with very low working capital.

It can be seen from the above table that, the bank's quick ratio is less than 0.5 for the four consecutive years under study. A healthy enterprise will always keep this ratio at 1.0 or higher (i.e. industry ratio). The maximum figure on quick ratio is 0.4609 in the year 0.5515 in 2009/2010 while the minimum figure is 0.3486 in the year in 2002/2003. These ratios imply that the bank needs to convert its non-cash current assets in to cash or near-cash resources to finance its maturing debts.

The above table also indicates that the cash ratio for the bank is less than 0.5 for the entire periods under study. A ratio below 0.5 mean there may be cash flow problems, possibly because of a significant backlog in accounts receivable. The maximum figure in the table is 0.4479 in 2009/20010 and the minimum is 0.276 in 2006/2007 fiscal years. It can be inferred from this table that the amount of cash available for financing the current debts is very low.

The trend analysis of these three liquidity ratios as it can be observed from the table above revealed that the ratios were slightly increasing excluding over the study period and this inevitably have impact on the profitability of the bank in the subsequent periods.

Leverage ratios indicate the level of utilization of internal as well as borrowed funds. They are also called as capital structure ratios. These ratio types in general mention the mix of available funds. The major benefit of leverage ratios is in highlighting risk associated with debt financing. High capital gearing is harmful to the enterprise as the potential of fixed charge (interest on debt) escalates. Firms in general prefer lower gear situations.

Table 2. Leverage/Debt Management Ratio Patterns over Eight Years

Item	**2002/2003**	**2003/2004**	**2004/2005**	**2005/2006**	**2006/2007**	**2007/2008**	**2008/2009**	**2009/2010**
Debt ratio (TL/TA)	0.914	0.983	0.970	0.904	0.870	0.892	0.896	0.899
Debt to equity ratio TL/AE))	10.580	11.724	17.640	12.485	7.743	8.243	8.611	8.874
Long term debt to equity ratio (LL/AE)	1.935	1.7550	1.1830	0.6779	0.419	0.853	0.253	0.183
Interest coverage ratio	1.3130	1.5940	2.1678	4.0220	3.982	3.597	3.208	3.142

Source: analysis of the balance sheet of years; 2002/2003 to 2009/2010.

These ratios are used to judge the long-term solvency of a firm. The most commonly used ratios are – Debt-to- Equity ratio (total debt divided by total equity), Long-term debt- to -equity ratio (long term debt divided by equity). While the accepted norm for debt -equity ratio differs from industry to industry, the usual accepted norm for debt to equity is 2:1. It should not be more than this. For certain industries, a higher debt to equity is accepted, e.g., in banking industry, a debt equity ratio of 12:1 is acceptable because of the intermediation nature of banking services.

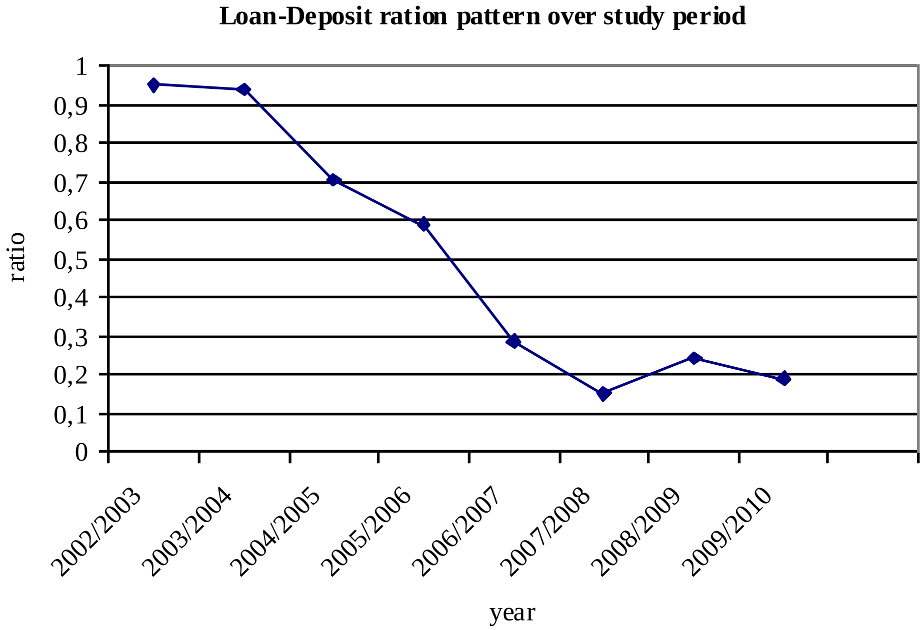
The above table depicts that the long term debt to equity ratio which measures the relationship between long-term external financing and net worth of a company has been declining over the study period. Here, a lower value is assumed in general to be functional for a firm. The ratio of Construction and Business Bank (CBB) relating to long-term debt and net worth shows a favorable trend over the four years. The ratio declines in a constant fashion from year to year. The bank has no exaggerated outstanding long-term debts when compared to magnitude of equities. The long term debt to equity ratios of the bank were 1.9350 in 2002/2003, 0.6779 in 2005/2006 and reached 0.183; the minimum for the study period in 2009/2010. From this evidence it can be implied that the bank has been reducing the financing of its operation with long term borrowings. This fact is supported by the existence of available sufficient internal funds to pay for outstanding debts and finance operations. As the evidence collected from the investment and accounts manager indicates, there was no law suit filed against the bank for inability of disbursing debts acquired in running operations. In general, it can be said that the long term credit risk is high for the bank as it has been carrying unbalanced ration of long-term debts and internal financial amounts.

Debt ratio represents liabilities divided by assets/investments. Investments in to assets are the value of the assets that contribute to a company's ability to generate revenue. The aforementioned bank is not good at this consideration. The ability of its assets to cover its liabilities and contribute to generating revenue is somewhat following a consistent trend. Nevertheless, the point worth mentioning here is that the bank is in a safer side if this ratio takes a reasonable lower magnitude although it is evidenced in international banking experience that more than 90% of assets investments are supported with debts. This does not mean there exists high insolvency risk because it is the intermediation services of banks which results in debt dominated capital structure. As can be seen from the table, the debt ratio is 91.36% in 2002/2003, 98.28% in 2003/2004, 90.41% and 87% the minimum value for 2006/2007. For having a protection, the bank has to lower this value. The debt proportion to ability of assets in generating revenue is not commendable and safe. There is strong indication of high debt over revenue generating ability of assets (after deduction of current liabilities). It is expected from the bank that the position of capital employed must be enhanced in relation to total liabilities observed.

The above table depicts that the debt to equity ratios of the bank were 10.580 in 2002/2003, 11.724 in 2003/2004, and 17.640 for 2004/2005 the maximum value for the study period. The minimum record is for the year 2006/2007 of 7.743. For the last three years it has been increasing consistently and reached 8.874 times in 2009/2010. These ratios seem unacceptable if compared with the proposed usual industry averages ratios, but for the firm is in the banking sector these ratios are not indicators of poor financial performance except for the year 2004/2005 where the ratio is 17.64.

Owing to coverage ratios, though not exhaustively listed, the rate of interest coverage ratio is not worth mentioning specially in the first two consecutive years. Here in our country case, there is no accepted industry average adopted by National Bank of Ethiopia. But for generalized reference, we can account for the proportion as adopted in international institutions. As most financial management professionals set forth, the interest coverage ratio is known to be 2:1. In this case, the bank is not able to keep the ratio at least to this ascribed proportion consistently over the first two years of the analysis periods. From the years considered, the last six are in compliance with this accepted criterion. In total, the interest coverage ratio is showing increasing trend and reached maximum of 4.0220 times in 2005/2006 from 1.313 times in 2002/2003.From 2005/2006 through 2009/2010 the interest coverage ration has been declining and observed to be 3.142 in 2009/2010. This decrease was partly because of the credit ceiling imposed by the national bank in addition to 25% liquidity requirement and 15% reserve requirement for inflation mitigation purpose which hampered the earning capacity of the bank and partly because of failure of the bank management to invest the 60% of the deposit collected that could be loaned.

Deposit Mobilization and Loan Performance



Source: analysis of audited financial statements of years; 2002/2003 to 200901/20.

Regarding deposit mobilization, the crude figures show an increasing trend in all of the deposit categories (demand, saving and time deposits). As evidenced from the annual audited financial statements, the growth in deposit is attributable to the relocation of some of the bank's outlying branches to better bankable areas and the gradual penetration of the bank in to foreign banking activities. By the same token, if we observe the actual figures owing to magnitude of approved loans, there is a commendable performance in the areas of loan approval for residential construction purpose, varied business premises construction, and for short-term and medium-term business loans. The main accountable factor for this dramatic increase in the amount of approved loans is associated with the increase in the financing demand for new business premises construction and the better efficiency registered in the bank's engineering services and credit processing and analysis. Owing to loan collection, the actual figure collected from old outstanding balance and fresh loans disbursed during the reporting periods were some what worth mentioning. Improvements observed in the bank's loan recovery efforts and credit risk assessments are the major factors for the better performance over periods considered for analysis.

However, it is foolish to perceive that an actual increase or decrease without relative comparison is sufficient for making wise financial decisions. For instance, here the responsible bodies of the aforementioned bank are reporting from year to year a promising tendency in loans and deposits without observing whether the ratio is conformable with the industry average set out by National Bank of Ethiopia. If we critically observe the loan-deposit ratio for the consecutive recent years, it is showing a deteriorating trend as presented in the above graph. The record shows 95.12% in 2002/2003 and fell to 15.87 % in 2007/2008 the minimum value for the study period after series of declines. It indicates a negative deviation from the standard (1:1) as adopted by National Bank of Ethiopia for all banking institutions in the country. The decrease in loan to deposit ratio is attributable to the rise in the deposit mobilized bank at an accelerated rate as compared to the increase in the loan approved. The implication of this result is that the bank is not successfully investing the deposit collected from savers into borrowers of financial resources. This would hamper the profitability potential of the bank as the deposit interest expense rises with the rise in deposit accepted when the deposit is not reinvested in to productive capital seekers. In general, for an accurate analysis and decision making scenario, it is essential to know the proportion of loans approved and deposits accepted in reference to the industry standard.

Asset Turnover Ratio Analysis for the Selected Years

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Total asset turnover	0.0641	0.0677	0.0665	0.0873	0.1167	0.0910	0.067	0.0649
Fixed asset turnover	1.6864	1.9825	2.8572	4.3351	0.1923	0.1322	0.12	0.1262
Current asset turnover	0.2168	0.2016	0.1345	0.1819	0.2962	0.2926	0.152	0.1337

Source: analysis of audited financial statement of years; 2002/2003 to 200901/20.

These measure whether the bank is making sufficient sales in relation to investment on assets. CBB Share Company has possessed current as well as fixed assets. Even though, the lion's share of assets in the bank is mainly attributable to cash on hand, bank balances, deposits and balances due from customers; there are assets under fixed, long-term and other categories. Typically, the buildings available for service provision, storage, and for similar purpose, property and equipments are the categories under fixed assets. In broadly speaking, asset turnover magnitudes measure efficiency of a company by depicting the utilization rate of assets held irrespective of specific sub-classifications. The following are the major ones under this categorical ration.

The ratios of asset utilization efficiency are calculated distinctively for fixed assets, current and comprehensive (total) assets. This categorical dealing of turnover ratios over four years gives a critical insight in making decisions regarding asset composition and efficiency (deployment of assets possessed). Thus, internal managers and external users for prospective ties will take decisions. The ratios act as a means of judging strength in performance of the bank. Let us now look deeply in to the four years period asset categorical ratios. As an accepted rule, high asset turnover represent efficient utilization. The term 'high' is interpreted in terms of type and size of the entity dealt with. However, inversely, an exaggerated low magnitude pinpoints inefficient asset utilization.

The total asset turnover ratios of CBB Share Company over the study period indicate fluctuation between maximum of 11.67% in 2006/2007 and minimum value of 6.41% in 2002/2003. That means the company is not that much curious of utilizing assets held. There is a possibility of deterioration of efficiency from time to time owing to investment on assets as far as a formulated decision is embarked upon the scenario depending on the magnitude of asset proportion in relation to other financial statement elements. As the consistent uncontrolled ratio indicates, the containment of more assets through time will have a negative impact on the performance of the enterprise. Low asset turnover implies more assets held in custody where by the assets if they are fixed category lead to loss of investment on assets because of obsolescence, deterioration and in general, exposure to risky conditions as time goes on. In addition, unbalanced possession of more liquid assets will be again subject to loss of value due to inflationary factors over time which acts in adverse of the bank. This unjustifiable slightly constant asset turnover ratio lends itself to emergence of new and fierce competitors paralleled with the economic policy change of the country. Therefore, this scenario stresses the importance of undertaking proper reactions to this end.

The fixed asset turn over has showed a continuous increase for the fist four years of the stud period followed by subsequent decrease for the next four years. This type of asset turnover ratio gives emphasis to assets that are permanent in nature (long-term assets). It can be said that greater loss is associated with existence of high fixed asset composition than do current ones. Since the bank is not mainly engaged in inception and redistribution of capital items, more attention may not be imparted to this type as compared to other major asset components. However, the analysis and adjustment of decisions accordingly matters a lot for having competitive edge over other competing banks in the country.

The current asset turn over that relates to the return rate in investment of more liquid assets has been varying between maximum 29.62% of 2006/2007 and minimum of 13.37% for 2009/2010. Having a reasonable margin of safety regarding liquidity is a crucial point worth mentioning here. Debts are to be settled from current assets because of ease of conversion to cash. Therefore, having higher value of such rates is positive for a company. On the other hand, excessive possession of such type of assets might have a detrimental effect in wealth of an enterprise. The magnitude of current asset turnover ratio indicates whether the investment on such assets is sufficient relative to sales volume achieved. Current asset turnover ratio says something about stock outs. Low current asset turnover ratio may be because of accumulation of inventories that cannot be put in to current operations, which in turn give rise to high stocking costs. Besides, Lower trend of current asset turnover ratio is attributable to high emphasis given to long-term assets as compared to liquid ones. Very high current asset turn over ratio represents serious situations of stock outs with their associated costs. Even though it may not lead to acute disruption of production as the share company is a banking institution, it can have adverse impact on customer satisfaction because of shortages which are persistent or short lived ones. In total, it can be inferred that the company's stand regarding assets efficiency is not appreciable. The exhibition of deteriorating asset turnover ratio is indicator of poor performance or unwise decision-making scenario on the management's side.

3. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The findings of the analysis of the liquidity ratios of the bank revealed that the current ratio, the acid- test ratio and the cash ratio are by far lower than the industry ratio as suggested by financial analysts and financial management professionals. The bank has been operating with very low working capital for the current ratio was almost below 0.5. The trend analysis of the four years ratios indicated that these three liquidity ratios had been in a decreasing pattern.

The profitability ratio analysis indicated that the profit margin before tax and interest and the net income ratios of the bank were in an increasing trend. The relocation of some of the banks outlying branches to better bankable areas and the gradual penetration of the bank in to foreign banking activities since 2002/2003 along with the increase in the number of deposit customers are the major factors attributable to this commendable financial performance.

Return-on-equity and return-on- investment/assets is also in a hiking pattern over the four years as revealed by the data analysis so far as these ratios are concerned. These ratios were increasing because the net income of the bank has been increasing at an accelerated rate than the increases in assets and equities.

It is a fact that a reasonable high asset turnover ratio is indication of better efficiency while the opposite acts adversely. The CBB share company's efficiency ratios are not satisfactory in general for saying that the bank is utilizing its assets effectively. The computed ratios ascribing to total asset turnover, fixed asset turnover and current asset turnover are showing unsatisfactory trend over time. This in general implies downside growth in performance. It is observed that the bank has relative balance in property and equipments as it is not primarily engaged in manufacturing sectors rather in provision of services. Thus, it is some what good in fixed asset utilization rate. Paralleled with asset utilization ratios, it is a fact that there will be expected association of overall performance efficiency in granting loans and satisfying depositors by complying with their requirements in terms of interest payments. Owing to low current asset turnover ratio, it is major indicator of illiquidity and insolvency of the bank if the trend goes as observed at times passed. That means, depositors interests may be satisfied from current assets in some situations. Therefore, if there is deficiency to do so, it will dissatisfy customers (depositors and/or borrowers).

Regarding deposit mobilization, the crude figures show an increasing trend in all of the deposit categories (demand, saving and time deposits). Similarly, with regard to loan collection, the actual crude figures collected from old outstanding balances and fresh loans disbursed during the reporting periods were some what worth mentioning. And, at the same time improvements are observed in the bank's loan recovery efforts and credit risk assessments. But, the relative proportions are in general not indicating a healthy trend for times ahead. Thus, this fact pinpoints the necessity of undergoing some interventions so as to keep in line with an accepted trend. A balanced and normally accepted loan-deposit proportion has to be kept in order to function without risk for future periods.

Leverage ratios on the other hand imply the cautiousness of the enterprise in balancing borrowed funds and internal funds though not worth mentioning. It can be seen from the financial statement analysis of the bank that it is aware of the consequences of higher capital gearing (much reliance on borrowed funds). The ratios calculated separately for long-term debt to equity, debt to assets, and debt to equity are following a constant rate. But in practical terms, even though they are not escalating time and again, the actual values indicate problems associated with total control over them. The long-term debt to equity ratios of the bank was declining over the study period except for 2007/2008. This indicates to long term creditors that the long term solvency risk is high for the equity of the bank is not sufficient enough to cover the long term creditors' claims. The total debt to equity ratio of the bank over the study period also revealed that there exist problem in establishing the capital structure of the bank as the debt is so high ranging between 10.580 times and 17.640 times.

The scenario regarding interest coverage ratio is also a pattern that necessitates some adjustment on a timely manner so as to win the satisfaction of depositors and creditors in general. It must be kept at a reasonable magnitude in order to assure the repayment or compensation of depositors for using their money in all other investment areas and also to reward lenders for utilizing their money in the bank towards the supportive enhancements of the nation's developmental activities in many sectors.

To conclude, the bank's financial statement analysis in line with deposit mobilization, loan performance, asset utilization, and internal-external fund balance and interest debt disbursement capability showed weak side. So, the bank's ambition of staying in business and becoming competitive in the dynamic and fierce prevailing market arena is will a challenge the bank leadership.

Recommendations

Based on the overall assessment of the bank's financial performance owing to asset utilization, deposit mobilization, loan performance, leverage and coverage ratios, the following suggestions are drawn by the principal investigators and urge the implementation of necessary timely corrective measures for efficiency and survival of the aforementioned bank at times ahead.

It is supportive to say that the bank is engaged in activities like; financing housing cooperatives, industrial projects service, residential houses construction, and in general it supports the expansion of the real estate sector in regional towns. Even though, granting loans to help development of the country is probation, the decision must not be made in a premature manner to the extent it questions the existence of the bank in the market. As far as the excessive loans over available deposits questions the financial strength of the bank and ultimately impacts depositors, a precaution must be taken to maintain the loan-deposit proportion to an acceptable limit rather than passing decisions without in-depth insight about the long-term effects.

Furthermore, emphasis should be given to minimizing credit risks and facilitating loan collections in the contemplated time in a win-win situation so as to act to the positive of depositors, borrowers and also to the bank. This is made a reality by having a balanced proportion of loans to deposits and meeting the legal reserve requirement ratio in relation to deposits received.

The asset utilization rate in relation to sales made is not promising. It is a dried fact that maintaining a reasonable high asset turnover ratio is deemed to have a positive implication and impact for any company. The total asset turnover ratio for CBB Share Company is showing a slight consistent insufficient trend, having potential for deterioration in asset usage efficiency from time to time. This ascribes to unawareness and loose emphasis given to asset utilization in line with categories of assets and sales volume achieved. Unless and otherwise, the mix of assets held in relation to sales made is balanced, the productive assets will cause a loss margin in a reciprocal manner because of random usage. Possessing a voluminous asset is nothing if not properly and timely deployed in to the area where it can be utilized to the good of the society (production processes or redistribution premises). So, the bank should urge for keeping proportion of assets used up and held in custody with sales revenue generated as it is a worth mentioning point for efficiency.

Regarding fixed assets turnover, the bank's results are showing a favorable condition. Because, the asset categories under fixed (relatively permanent nature) represent in some circumstances huge investment, a sensitive over look is deemed to be essential since such assets are subject to obsolescence, loss of value because of inflation, agedness (depreciation), or to other risky situations (uncollectibility, damage, firing, and so on). In total, the investigators stressed the effective utilization of such asset categories in order not to lose the investment made on them through taking timed measures felt necessary by knowing the usage rate through carrying out the necessary analysis by the bank's financial experts or responsible bodies.

More to the point, a deep analysis is also exerted upon the condition of current assets. The results revealed that investment on current assets as compared to sales made is not showing a promising scenario. Since the bank's liquidity and solvency is measured depending on the state of current asset composition, the bank should strengthen its position in this regard. A reasonable high proportion of current assets must be kept paralleled with balanced turning over of such assets as far as exaggerated high or low rates are not good as a whole.

The findings of analysis of ratios revealed that the profit margin before tax and interest ratio and net income ratio; the profitability ratios in general including return- on -equity and return- on- investments of the bank had been increasing over the study periods considered. Thus, the bank should broaden its customer base and services so as to maintain its value and profitability. The bank should strengthen strategy of increasing its revenues while maintaining its cost of operation to the minimum possible level.

The liquidity ratios computed indicated that, the bank has been operating with very low working capital (i.e. with current ratio, quick ratio and absolute liquidity ratio of lower than 0.5). Although it seems impossible for a business to generate profit with such a liquidity ratio pattern, the bank has been profitable for most of the assets held can easily be tuned over in to cash. With limited working capital it will remain day dream for enterprises to generate as much profit as they should for they can not expand their services to new markets and even in the existing markets. Therefore, the bank should pursue long term financing strategy rather than short term financing strategy so as to have sufficient working capital that enable the bank to be successful in attaining organizational goals. Specifically, long term financing strategy of longer period of maturity should be adopted by the bank for the fact that the bank need not use current assets for repayment of the debts.

The existence of unsatisfactory capital gearing ratios over time indicate ineffectiveness of the bank's financial experts and other concerned bodies to have acceptable mix of internal and external financial sources. To be precise, more is expected from the bank to hold down these ratios at a reasonable lower magnitude by strengthening its internal capital base. The dependency on external financing must be looked from many aspects (interest to be paid, sustainability of the external source and associated benefits to be derived). The need for maintaining an optimal lower leverage ratio is unquestionable.

The interest coverage ratio must be kept at an accepted ratio of 2:1 or at least near to this ration. Any unfavorable deviation is indicator of poor financial management practice in the area. Therefore, if possible it is better for the bank to look in to such critical ratios rather than blindly rely on crude figure to talk about favorable progresses or unwanted downsides in the financial performance analysis and decision making process. Thus, depending on the status of the bank with regard to this ratio a timely decision and corrective action can be relied on to balance loan approvals with their interest bearings and deposit reception in line with their associated costs in the form of fees (interest charges) to ultimate depositors and principal creditors.

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INCOMES AND EXPENSES - A TOOL TO IDENTIFYECONOMIC-FINANCIAR COMPANY

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Abstract: The article presents a structural and factorial analysis about the incomes and expenses at Antibiotice S.A. company . The analysis is performed on 4 years (2007-2010). Structural analysis should focus on elements that have important weights in all the expenses, improve their generating significant savings, provided quality is not affected. Factorial analysis of expenses is to identify and determine measurable factors that influence the dynamics and level, to determine the causes and measures to increase efficiency, complementary structural analysis.

JEL classification: M1, M13

Keywords: income, expenses, structural analysis, factorial analysis

1. INTRODUCTION

Companies activity must take place in the relationship between incomes and expenses balance.

Expenses, as an expression of resource consumption, plays a key role in assessing business performance, managers ability to seize the best choice and use of resources, ensuring efficiency and business competitiveness. On the mechanismsof formation are both cost results in volume, structure and dynamics of the different categories of consumption and competitive environment pressures.

To obtain values company uses resources, human and financial, whose consumption is concretizeză through expense. So spending reflects an enterprise value as consumption of factors and resources, human and financial, made for the manufacture and sale of production. The dynamics and structure of these expenses reflect the synthetic activity of industrial enterprises on line the effective use of available resources and their reduction should be a primary goal for all companies to increase the efficiency of the entire activity unfolded.

Operating activities include all economic and commercial operations on production and sale of goods, financial activity is embodied in financial market operations and extraordinary activities is events or transactions which are different from the current activity of the enterprise that are not frequently or regularly.

In economic sense, the expense is "representation in money terms of use of resources / wealth in order to acquire a commodity or service". In general sense, the expenses means the monetary value spending on economic relations and employment resources in the economic activities of the patrimonial entity. They indicate the uses of resources, made up largely of value paid or payable in return for raw materials and goods purchased with the works and services for enterprise and commitments that the company agreed to pay .

In general sense, "income" is money that belongs to a person from an activity performed or property owned in a while income is "benefits received from capital items, after deletion of any use made of these items or services needed to build the other capital goods incomedefinedbylight ofthe outcome:"income iswealthor resourcethatisina periodof anatural or legalpersonsfroma sale, an activityperformed, a propertyowned orreceivedfunding.

Income of the company are amounts received or receivable: goods delivered, work performed and services provided to third parties, legal and contractual obligations of third parties and other emergencies. The category includes both income amounts or amounts received or receivable on its own curent activities and gains from any source.

2. METHODOLOGY

Dynamic analysis methodology aims, structure andchanges in company Antibiotice during the 4 years (2007-2010).

Operating expenses, incurred mainly by fundamental factors that facilitate consuming to do business: expenses of raw materials and consumables, energy and water expenditure on goods, other material costs.

Financial expenses, consisting of adjusting the value of financial assets and financial investments held as current assets, other financial expenses (losses of equity-related claims, expenses on disposal of financial investments, foreign exchange expenses, interest expense, expenditure on discounts customers, debtors or banks);

Extraordinary expenses represented by the expenses that are not work-related economic unit, consists of expenditure on disasters and other extraordinary events (losses from disasters and expropriations of assets);

To analyze the dynamics ofthe total expensesof the enterprise is necessary to calculate absolute and percentage changes in the level of their way:

$$\Delta Ct = Ct_1 - Ct_0$$

$$\nabla Ct\% = \frac{\Delta Ct}{Ct_0} * 100$$

$$\nabla Ct\% = I_{Ct} - 100$$

Depending on the size and sign of the changes, you make judgments on the increase or decrease in actual total expenses than those provided or base period. The analysis will study the structure the total expenses on the 3 categories. For this purpose it is necessary to calculate the percentage of each category of expenditure in total expenses, and changes to those shares as follows:

$$\frac{Ce;Cf;Cex}{Ct} * 100$$

Afterthe structural analysis ofexpenseswemake afactorial analysis of enterprise in comes expenses. Basic indicator used the factorial analysisis the rateof total expensesof which:

$$R_{CT} = \frac{\sum gi * ci^{(100)}}{100}$$

Where:

$ci^{(100)} = \frac{ch_i}{vi} * 100$ = rate of spending on activities;

gi = income structure;

$$\begin{tikzcd} R_{CT} \arrow[r] \arrow[dr] & \Delta gi \\ & \Delta c_i^{(100)} \end{tikzcd}$$

$$\Delta R_{CT} = R_{CT1} - R_{CT0}$$

Which:

1) the influence ofincome structure:

$$\Delta R_{CT(\Delta g)} = \frac{\sum gi1 * ci0^{(100)}}{100} - \frac{\sum gi0 * ci0^{(100)}}{100} = \Delta R_{CT}^{R} - R_{CT0}$$

$$\Delta R_{CT}^{R} = \frac{\sum gi1 * ci0^{(100)}}{100}$$

2)influence ofthe rate ofexpensesonactivities:

$$\Delta R_{CT(\Delta c_i^{(100)})} = \frac{\sum gi1 * ci1^{(100)}}{100} - \frac{\sum gi1 * ci0^{(100)}}{100}$$

3. ANALYSES

Starting from the above, we propose to continue this work, to analyze income and expenses and their influence on company results.

Table no. 1. Statement of incomesand expensesinthe period 2007-2010

(Mii lei)

Indicators	2007	2008	2009	2010
A. TOTAL INCOMES, of which	237.527	231.224	221.310	262.815
1.Operating income	235.848	226.846	218.740	248.530
Production selling	228251	183539	191316	224870
Income from goods	1164	32266	28437	37647
Income from operating grants	-	-	-	-
Production stored	3607	8600	-2781	1684
Capitalized production	417	720	559	899
Other income	2407	1719	1207	2319
2. Financial income	1.679	4.378	2.570	14.285
3.Extraordinary income	-	-	-	-
B. TOTAL EXPENSES of which:	200.640	217.846	205.662	244.343
1. Operating expenses, total, of which:	193.773	201.500	192.567	217.968
a)Raw materials and materials	52.660	50.695	43.569	49.648
b) Other materials expenses	1.017	464	215	520
c) subsistence costs for energy and water	6.737	6538	5621	7311
d) expenses goods	783	11421	11833	18537
e)Staff costs, including:	54.849	64062	63417	65439
Gross wages	42.421	50577	48617	50961
Insurance and welfare expenses	12.427	13484	14800	14478
f) Operating expenses for depreciation and provisions	8.823	13484	13605	13181
g) Operating expenses related adjustments for depreciation of current assets	-1822	1067	3730	18605
h) The expenditure on works carried out by third parties and partner services	63782	46377	46488	41444
m) Other taxes, fees and similar	1618	1354	1084	1055
n) Expenses compensation, donations and assets	6420	7321	2701	2124

transferred				
k) Operating expenses for provisions	-1094	-1260	300	100
2. Financial expenses	6.869	16345	13095	26375
3. Extraordinary expenses	-	-	-	-

Source: Financial statements S.C. ANTIBIOTICE S.A.

The largest share of operating income has sold production in 2007 is 96.78%, in 2008 the share is 81% (there is a decrease aproximativ16%), and in 2009 the share is 87% (previous year is an increase of 6%) and in 2010 the share up to 90% (previous year is an increase of 3%).

Table no.**2** Income structureincompanybetween 2007-2010(%)

(Mii lei)

Indicators	2007	2008	2009	2010
Total revenues, of which:	100	100	100	100
1.Operating revenues	99,3	98	99	95
Production selling	96,78	81	87	90
Income from goods	0,49	14	13	15
Stored production	1,53	3,79	-1,27	0,67
Capitalized production	0,2	0,3	0,25	0,36
Other income	1,02	0,75	0,55	1
2.Financial income	0,7	2	1	5
3.Extraordinary income	-	-	-	-

Source: Financial statements S.C. ANTIBIOTICE S.A.

As shown in Table. 3 raw materials costs have a share of 27% in 2007 down slightly in 2008 (25%) reaching 23% in 2010. Salary expenses in 2007 accounted for 28% in 2008-2009 and then get up to (32% in 2008 and 33% in 2009), followed by a decrease of 3% in 2010, declining which is due to the economic crisis. Work expenses and third party services having the largest share of total operating expenses. They have a 33% in 2007, then in 2008 they decrease by 10%, as is observed every year decreased by 1%. In terms of financial costs is an increase every year (in 2007, financial expenses are 3%, then in 2008 they accounted for 8%, so a 5% increase in 2008 reaching 6% decrease compared with 2007, but 2010 reached 11%, so an increase of 5%.)

Table no.**3** Structureexpensescompanybetween 2007-2010(%)

(Mii lei)

Indicators	2007	2008	2009	2010
TOTAL EXPENSES of which:	100	100	100	100
1. Expenses for mining-total, of which	97	92	94	89
a)Raw materials and materials	27	25	23	23
b) Other materials expenses	0,52	0,23	0,1	0,2
c) subsistence costs for energy and water	3,47	3,2	3	3,4
d) expenses goods	0,4	6	6.1	8,5
e)Staff costs, including	28	32	33	30
-Gross wages	77	82	77	78
-Insurance and welfare expenses	23	18	23	22
f) Operating expenses for depreciation and provisions	5	7	7	6
g) Operating expenses related adjustments for depreciation of current assets	-1	0,5	2	8,5

h) The expenditure on works and third party services	33	23	24	19
m) Ch Other taxes, fees and similar	1	0,67	0,56	0,48
n) expenses compensation, donations and assets transferred	3	4	1.4	0,97
k) Operating expenses for provisions	-1	-0,62	0,15	0,04
2. financial expenses	3	8	6	11
3. financial expenses	-	-	-	-

Source: Financial statements S.C. ANTIBIOTICE S.A.

Next, I tried to perform a factor analysis of income expenses and a structural one. Factor analysis of the expensesis to identify and determine measurable factors that influence the dynamics, to determine the causes and measures to increase efficiency, complementary analysis structurale.

Table no. **4** Analysis ofexpenses fortheactivityrate

Nature of activity	Income structure				Rate of spending on activity (ci^{100})			
	2007	2008	2009	2010	2007	2008	2009	2010
exploitation	99	98	99	95	82,16	88,82	88	87,70
financial	1	2	1	5	409	373	509	185
extraordinary	-	-	-	-	-	-	-	-

Table no. **5** Analysis oftotal expensesrate

Nature of activity	Structure Income (%)				Total expenses ratio (R_{CT}) (%)			
	2007	2008	2009	2010	2007	2008	2009	2010
Operating income	99	98	99	95	81.33	87,04	87,12	83,31
Financial income	1	2	1	5	4,09	7,46	5,09	9,25
Extraordinary income	-	-	-	-	-	-	-	-
TOTAL	100	100	100	100	84,47	94,21	92,92	92,97

Table no. **6** Influencethestructureincomeactivities

Influences	2007-2008	2008-2009	2009-2010
ΔR_{CT}	9,74	-1,29	0,05
ΔR_{CT}^{R}	4,22	-0,36	-2
$\Delta R_{CT\,(\Delta c_i^{(100)})}$	5,51	1,26	-16,08

The analysis shows the rate of total expenditure exceeded by 9.74 percentage points in 2007-2008, a decrease of -1.29 percentage points to provisions in 2008-2009 and in 2009-2010 exceeded the provisions of 0,05p.p.

5. CONCLUSIONS

Given the calculation (effort / effect), increasing the rate of total expenditure shows a decrease in efficiency costs (in 2007-2008), with adverse implications on economic and financial performance of the enterprise, but in the year 2009-2010 is an increase in cost efficiency (1.29pp).

This situation was due to:

• the change in the income, which in 2007-2008 led to increased revenue by 4.22 percentage points efficiency and in 2008-2009, 2009-2010 led to a decrease in efficiency with p.p 0.36, respectively - 2 pp;

• the qualitative, that rate of expenditure on activities that are decisive to reduce total cost efficiency.

It found:

The evolution of operating expenses prints evolved in the same direction and approximately the same intensity ratio of total expenses due to the large share they hold operating income in total income.

Unfavorable situation recorded in the operation, bringing forward the growth of operating revenue by the growth of expenses ($\hat{I}_{CE}$= 96 respectiv 96;103.98 respectively $\hat{I}_{VE}$ =113.6 95.5, 113.2) may be caused by:

-Decrease the speed of rotation of assets;

-Lower labor productivity;

-Increased unjustified expenditure;

-Failure correlation.

Financial expenses increased rate due to slower decrease of the income before expenses, which led to a decrease in results from 100 lei. This can be explained by the fact that the company is highly leveraged, which involves incurring interest expense systematic, has no securities that would ensure financial income.

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INTRODUCTION OF THE EURO

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Abstract: SIC 7 addresses how the introduction of the Euro, resulting from the European Economic and Monetary Union (EMU), affects the application of IAS 21. SIC 7 states that the requirements of IAS 21 should be strictly applied when a country joins the EU's Economic and Monetary Union. The effects of the euro depends on the particular circumstances of a society and its environment.

JEL classification: G32, M41

Key words: critical: SIC 7; Monetary Union; the changeover creative thinking; problem solving; accounting researches

1. INTRODUCTION

This Interpretation deals with how it performs this introducing the euro resulting from the monetary union, and the way that the single currency affect the application of IAS 21 The Effects of Changes courses exchange.

IAS 7 states that the requirements of IAS 21 should be strictly applied when a country joins the EU Economic and Monetary Union. From January 1, 1999, Economic and Monetary Union (EMU) requires euro to be an independent currency and the conversion rates between the euro and currencies participating countries will be irrevocably fixed, ie, as of this date will be eliminated the risk of exchange rate differences.

Requirements of IAS 21 in terms of conversion operations and situations foreign financial entities, should be strictly applied in case of changing. The same reasoning goes for irrevocably fixing the exchange rates of other countries will join EMU at later stages. This means in particular that: (A). currency monetary assets and liabilities from transactions should continue to achieve currency in which financial statements are presented using closing exchange rates. Differences resulting from the exchange would be recognized immediately as income or expense, except related to companies should continue to apply the previous accounting policies that special case of exchange rate differences related to exchange contracts rate, used to reduce risk or foreign exchange operations future commitments (protection). (B) differences in cumulative currency translation related to the financial statements of foreign entities, which are part of the held by the parent, should remain classified as equity, and should be recognized as income or expense to expropriate foreign entity net investment in question. (C) exchange differences arising on the translation of liabilities denominated in currencies of participating countries, should not be included in the carrying amount of related assets.

2. BASIS FOR CONCLUSIONS:

Section 11 (a) of IAS 21 requires foreign currency monetary products to be accounted for using the closing rate at balance sheet date. In accordance with paragraph 15 of IAS 21, exchange differences arising from conversion of monetary items should be recognized as income or expenses in the period in which they occur. Effective start of EMU by date balance does not modify the application of these requirements on the closing date, because, in paragraph 28 of IAS 10, has no relevance to the fact that the rate exchange at the balance sheet can fluctuate after the closing date balance.

In paragraph 14 of IAS 21 provides that this rule does not deal accounting for hedging transactions, except very specific cases. Paragraph 42 of IAS 8, would allow a change accounting policy only when it aims at obtaining a presentation appropriate events and transactions company. Effective start of EMU, by itself, does not justify a change in accounting policy by the company in for coverage sooner, because the changeover does not affect the principles behind the economic base of such coverage.

The changeover did not change in accounting policy, which gains and losses from financial instruments designated as hedges in advance, apart and compenseza with income and expenses in future periods.

That the cumulative value of foreign exchange differences will be fixed in EMU does not justify immediate recognition as income or expense, literal wording of paragraph 37 of IAS 21 clearly prevents this treatment.

In accordance with the allowed alternative treatment in paragraph 21 of IAS 21, exchange differences arising from the strong devaluation against foreign currency, they can be included in certain very limited circumstances regarding recognition of the asset valoarii to which acts.

Those circumstances do not apply to the participating currencies euro area since the devaluation hypothesis is incompatible with strong necessary stability required in the process of accession.

Therefore:

• foreign currency assets and monetary liabilities arising from transactions continue to be translated into functional currency at the closing. Any differences in exchange results are recognized as income or expense immediately, except that an entity continues to apply its existing accounting policy for exchange gains and losses on hedges of risk rate of a forecast transaction.

• cumulative exchange differences relating to the translation situations foreign financial operations continue to be classified as equity and are recognized as income or expense only net investment in the economic failure of alienation and

• exchange differences arising on the translation of liabilities denominated in participating currencies not included in the carrying amount of assets related.

The effects of the euro depends on the particular circumstances of a society and its environment.

Some companies do not use foreign currencies in their operations. In consequence, these companies were never required to perform currency translation before, because it was simply necessary.

However, with the euro, these companies will have to translate their accounts in euro units. This translation is not a revaluation of assets, Equity and liabilities of these companies. These elements are expressed a new currency, in the same way a translation is made convenience. Translation procedure to be followed is relatively easy. It takes only that all assets, capital and liabilities to be translated into euros using the rate fixed conversion so will not result in any difference of course after adoption single currency. Companies that have relationships in foreign currencies are companies that runs directly part of their activities in foreign currencies, or with an interest in a transaction foreign (branches or subsidiaries) if these companies need to perform a translation of their annual accounts in foreign currency and / or accounts consolidated.

For companies with a financial year does not coincide with the calendar year,the euro will happen sometime during their financial year.

Post balance sheet events.

For companies to end their financial year which ends on 31 December, but a few months earlier, the euro is a considering the event occurs on balance, will have an impact the annual and consolidated accounts for the financial year.

Companies are obliged by Article 46 (2) (a) of Fourth Directive to give an indication of any major development of took place at the end of the year. For example, a company that ends financial year to September 30, 1998, should reveal the effects of transition the euro in its financial statements for this period, if they are imposed after the announcement of the fixed exchange rate.

The effects of the euro are limited companies participating in the Member States. Starting January 1, 1999 (beginning of Phase B) companies with cross-border transactions, intra-EU, will be prepared the transactions in euro units. Furthermore, these companies may experience an indirect effect of introduction of the euro through their subsidiaries in Member States participating.

5. CONCLUSIONS

Even if the euro remains questionable but have permanent changes in European accounting systems. The idea of harmonizing accounting system does not stop.

In order to achieve harmonization of accounting introduced new accounting standards or existing accounting standards are constantly reviewed to be useful even if the economy is always changing.

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ORGANIZATIONAL CHANGE MANAGEMENT APPROACH IN AN INTERNATIONAL CONTEXT

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Abstract: At present, in a society increasingly based on knowledge, the correct approach to change in organizations is extremely difficult, due to national and international implications of the expected effects of actions taken or derived. Once Romania joins the European Union, Romania has entered a new stage which involves preparing and taking steps Schengen Area. Abolition of checks at internal borders of the European Union is the most visible and most important effect of European integration. Change can be tackled in a variety of ways, since there is no effective strategy at all times, approach or combination of approaches will reflect on their own assessment of what best suits the particular change. In this context it is useful to describe some of the different strategies we can use.

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

Key words: international context; change management; public administration; public organization; national security system

1. INTRODUCTION

Organizational change management in an international context is managerial decision-making process of creation and multiplication of competitive advantage in complex, volatile and risky, involving actors from other countries than the country of origin. Organizations have a strategy to develop and expand the internationalization process should be subject to changes induced by adaptation to the international environment. Meanwhile, organizations working nationally are forced to undergo the change process induced by adaptation to international environmental influences that interfere with the national by multinational organizations or organizations in other countries that operate nationwide.

Single European market expansion induces changes in the organizational environment, both in the European Union (EU) and the candidate countries, like Turkey, which is only member of the North Atlantic Treaty Organization (NATO). But not only the development of the European Union is specific to this, but the world economy is in transformation and restructuring, either through its own initiative, be guided by the International Monetary Fund (IMF) and World Bank. Intensifying global competition requires increasingly restructuring in many industries adjust to global governing forces in November in world economy today.

Complex changes are characterized by the existence of conflicting viewpoints, the ambiguity and lack of unique solutions. Organizational paradigm shaping how people perceive and define change, influencing their reactions and responses to change processes. Thus, organizational development works on organizational culture to make changes.

2. CHANGE, AN INCREASING CURRENT NEED

Change Management is a set of skills, techniques and disciplines that complexity and specialization are converted into actions and results through the organization. Adopting methods of change management is difficult, but necessary, so continuing despite difficulties. The quality of persons authorized to manage the change decisively influence the whole process of organizational change, the qualities and skills that they need to possess.

However, change is an ongoing process of confrontation, identification, evaluation and action. The issue of change is an almost obsessive concern in the sociology of organizations, perhaps because of the emphasis placed bureaucratic rigidity, or specific problems faced continually, both business leaders and responsible administrative reforms (Ministerul Administraţiei şi Internelor, 2006).

Therefore, it requires new strategies to implement change in national security institutions or adaptations of approaches already used by more developed countries or superior integration experience in international bodies such as the European Union and North Atlantic Treaty Organization, as the international environment is subject to continuous change process. Transformations taking place in terms of technology, information, structural, relational, cultural and human values, enhancing environmental complexity and volatility.

The complexity of the international environment facilitates risk of taking wrong decisions or adverse consequences in work organization. Decisions to reduce risks, management action to improve the technology for collecting and processing information, continuously monitor the environment and identify changes in the environment as early as possible. Thus, international environmental complexity can be averted, either through organizational learning and continuous adaptation to changing environment, positive impact on competitive advantage, or using intermediaries volatile environment and referral efforts for a stable and less risky, but with negative consequences competitive advantage.

Change in the international environment is characterized by complexity, volatility, risk constantly changing and influenced by national environmental organizations. But international environment induces changes in the national environment, which induces changes within the organization. Organizations that have produced changes influencing changes in national and international environment and so on, in a continuous cycle of change.

The challenges that organizations must respond today are related to changes that need to create conditions to operate internationally to meet international influences and promote adaptation strategies. Thus, in the context of international and national management organization must constantly face minor changes, some elusive, the underlying decision. Globalization requires a new vision of knowledge approach to collaboration within and outside the organization (Burlea Şchiopoiu, 2008).

Because change is a characteristic and continuous process, which can be planned or unplanned and may cause other changes or a chain of changes, leading to transient disturbances or radical upheavals, people are affected by the change and react in different ways that cause emotional reactions change and has consequences that can be accepted, rejected or ignored. Reactions to change depending on role ambiguity and scrutiny of individual change can be seen as an opportunity, characterized by dynamism, flexibility, activity, motivation, incentive, but also as a threat, characterized by stress, consumption of time and money, worry, irritation, uncertainty, failure.

The new public management that focuses on services provided to citizens and coexistence and interaction requires a coherent three areas: public administration, industry and civil society. Organizational communication is all communication structures and processes by which organizations adapt to changes in external environment. In this new context, become visible on a new meaning, and even a possible definition of public relations (Iacob and Cismaru, 2003).

Worldwide, the public sector begins to take on modern management techniques and practices used in the private sector. But this process, transfer techniques in the private sphere in public is not easy anywhere. Sometimes this means changing the structures and methods established in time and there is always the argument that private companies must pass the test market (profit) while the public sector test is a more complicated problem. The public sector must pass some sort of market test, which takes the form of political dispute for power, expressed in part by the votes won achievements due to the Government.

There is still the same. The difference is clear when we talk about responsibility and about its various forms, applicable to private organizations and the public. During the social and organizational change, there is a need for communication strategies and techniques to adapt (Burlea Şchiopoiu, 2007). Governments have to deal with a growing complexity and higher acute needs more specialized staff to manage and resolve new problems. Administration classical, governed by a set of specific regulations is not adequate for this purpose.

To obtain flexibility in the organization, matching turbulent environment, organization must seek optimal strategic options by implementing new technologies, organizational structures, decentralization, autonomy establish working groups and to establish interactive relationships with customers and clients. In this context, is characterized by rapid change and efficiency, military organization. As a consequence of this reality, Romania has a flexible and efficient army, equipped to modern standards, and in pursuance thereof, able to perform any task within NATO. The very special significance, are the lessons learned in the theaters of operations, in the hottest areas of the planet, they are or were until recently employed significant Romanian forces, along with the other armies of the Alliance or multinational coalitions, they bring valuable contribution to peace, freedom and democracy, the world needed to have the chance to live.

The determining factor is the transformation framework is changing and the shift from industrial age to information age, changes in the characteristics of war, and asymmetric threats. The answer, in terms of technology, is channeled towards ensuring high availability of information technology. For these reasons appear significant changes in content security strategy, military departments, as well as those that address risk and threat management. Implications transformation rooted in political knowing that the interests of states to go beyond the interests of other states and it was now the asymmetric threats that require a reorganization of activities and military style organizations.

Perhaps the current economic crisis and the expected shortage of financial resources will lead to some restructuring and reorganization of the armed forces and more efficient management of human resources. Some states will waive the maintenance of complex structures built from all sorts of forces in favor of flexible structures, niche, while others will reduce or even stop contributing to some external operations and will focus on internal security missions and defense. Worst danger is the possible decrease morale and motivation of the troops caused the financial shortcomings (from a salary, subsistence, welfare system, disability insurance / life) and the deficiencies of equipment, logistical, etc. (Băhnăreanu, 2009).

3. CHANGE MANAGEMENT, A SPECIAL SCIENCE

A general definition that we believe and that is the essence of change management is a set of skills, techniques and disciplines that complexity and specialization are converted into actions and results through the organization. Adopting methods of change management is difficult, but necessary, so continuing despite difficulties. Change is essentially a transformation or a change, a shift from a state of affairs to another, from one set of conditions to another.

Change management refers to the adoption of planned, structured and organized changes. In the center of change management is the issue of change, which is the study that we find in the future, based on current state and structured and organized process that will allow the transition from one state to another. Professional practice refers to response, response to changes in the organization does not control or make a little (legislative changes, changing social and political climate). Expertise refers to those methods, models, techniques and other tools used in content or subject matter of change management. It is drawn from sociology, psychology, economics, industrial engineering, systems engineering, studying behavior (Stanciu, 2007).

The most obvious definition of change management refers to managing change issues. Managing change is itself a phrase has at least two meanings. The first purpose of managing change refers to the adoption of planned, structured and organized changes. The goal is to implement more effective methods and systems in an organization are in full activity. Changes are found to be managed within the organization and its control. Perhaps the most familiar example of this is changing version control information system development projects (Burduş and Căprărescu, 1999).

The term change management refers to response, response to changes in the organization does not control or make a small extent (changes in legislation, social and political climate change, competition, changes in economic relations, etc.). Researchers and practitioners alike distinguish a reactive response and anticipation of these changes. Many independent consultants say that they are engaged in planned change, they are change agents, they manage change for their customers and their methods are in perfect accordance with change management practices.

Some of these experts say it helps their clients manage change facing. Others say it helps their clients to make changes. However others said that offers to help by taking on the task of managing change to be adopted. In almost all cases, the change is treated separately from the characteristics of the situation. It is widely recognized that these processes of change management must be carried out by agents of change.

The idea of taking our change management, as an area of professional practice, is already a new definition of change management: content or subject matter of change management. It consists of models, methods and techniques, tools, skills and any other form of expertise that underpins all activities. Content or subject matter of change management is drawn from psychology, sociology, business management, economics, industrial engineering, systems engineering and the study of human and organizational behavior (Barcan, 2009).

For many practitioners the components of expertise are linked and integrated into a set of concepts and principles called General Systems Theory. Suffice it to say that expertise is vast, relatively coherent, which strengthens the field and on which most practitioners would agree, even if the object of their work does not eliminate high character of variation on this theme (Biscop and Algeri, 2008).

Change can be considered as a dynamic balance of forces on the one hand, pressure on change and on the other hand, causes a resistance to change. Elements for change and create pressure for change is technological change, knowledge explosion, aging products or improving working conditions. On the other hand, the elements that hinder change or create resistance to change are outdated attitudes, mental blockages, disinterest, fear of new, fear of failure, low level of professionalism and changing labor structure (Dunne, 2006).

The two major factors influencing change within the organization are external factors that can be controlled to a lesser extent by managers and internal factors that act changes within the organization. These are the decision-making processes, communication, interpersonal relations, leadership, management style etc. In addition to the factors listed there and a lot of elements, which by nature of their content, generate change. But there is other underlying factors change.

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

Perception of change is important but not sufficient and should therefore be supported by a complex of actual activities of the managers. Therefore, one of the most important aspects understands the organization's staff, managers and subordinates, the need for change. Organization's staff should be helped to understand that the current organizational structure should 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 substantiation participatory, using modern management methods and techniques (Douglas, 2002).

Implementing change management involves defining the factors that generate change, recognition, understanding the need for change, diagnose problems involving change, identify methods by which to make change, determining ways to implement change, overcoming resistance to change, change implementation and evaluation of implementation changing. Therefore, change management requires a systematic sequence of processes accompanied by a permanent feedback (Radu, 2008).

Resistance to change is the main obstacle that we face change. Reasons that generate resistance to change can be personal interests, misunderstanding the fundamentals change, tolerance for change (carelessness), fear of the consequences of movement or trend of self-limitation effort. To minimize this phenomenon, however, resistance to change, managers could initiate a set of activities such as preparation time change discussions with those involved in this process, supporting and encouraging those involved in the process of change through effective participation in this organization the debate on the issue of change, inter-personal influence or exercise pressure, which can generate resentment and hostility.

The change means, for many people, uncertainty or insecurity about their future at work, relations with others. It is therefore likely that this fear or anxiety of people about to change, to lead them to attempt to block, to resist its introduction. In a sense, resistance to change is a positive because it proves the existence of some degree of stability and allows the prediction of organizational behavior. But resistance to change effects is mainly negative: it can generate conflicts within the organization, but especially is an obstacle to progress (Zulean, 2008).

4. CHANGE MANAGEMENT APPROACHES IN CONTEMPORARY SOCIETY

In accordance with the vision of George Moldoveanu and Cosmin Dobrin researchers from the Academy of Economic Studies in Bucharest, we talk about top-down approach, bottom-up approach or an approach based on the services of an expert (Moldoveanu and Dobrin, 2008).

Top-down approach involves the introduction of changes to be decided by someone in a position of authority. Ideally, the decision maker declares his intentions clear as they take action and disseminate necessary information to interested parties. Typically, employees affected by change have little opportunity to influence proposals by the decision maker. Then, much effort is devoted to changing people's belief to accept willingly.

Top-down approaches were considered a symbol of management, because it implies the adoption of decisions you have to execute others. Lately, however, as the effectiveness of participatory model was increasingly recognized, top-down management has gained a reputation for being undemocratic and lacking concern for people, because it manages to win over change, to make it to and learn. However, leadership, confidence and willingness in decisions can sometimes provide better performance. A top-down approach is a way to introduce change, direct it, to provide credibility and authority process.

Because the proposed change to be introduced quickly, top-down model may be the only realistic approach, even if the implementation is painful. If you need to quickly implement a change, you should consider whether the situation is because the manager was not able to detect earlier that need.

The most famous bottom-up approach of the change process include quality assurance teams action, local action groups, initiatives on empowerment (meaning employees investing authority and power to take decisions), etc. Besides that adopt certain mechanisms generating ideas (as suggested collection schemes), this approach is almost always the team, so that bottom-up approach tends to become synonymous with the team approach. However, not all bottom-up approaches have appeared on the field of team work.

Bottom-up approaches are needed, usually when the means of solving problems are not clear, and those directly affected must participate in finding solutions to potential or those affected by these problems when they feel unfairly. As a result, potential solutions can be different, for which top-down approach may be appropriate.

Obviously meaning bottom-up depends on the perspective adopted. For example, running a government of national security body may consider the involvement of unit managers in decision-making processes of adopting a bottom-up, however, staff units considered bottom-up approach.

A disadvantage of bottom-up approach is that any planning and implementation process takes a long time, because its effectiveness should be based on a lot of consultations and agreements. In addition, difficulties may arise if the body does not have a structure able to collect and evaluate ideas on changing employees. If the pressures that staff exercise can be very effective in producing change (provided the management team is willing to consider them), their ignorance can lead to dissatisfaction, frustration and resentment.

Approach an expert calls for experts to analyze and make an assessment of the performance problems faced by the organization to propose different solutions and, sometimes, and implement them. Expert often comes from outside the organization or department to be brought change and has skills and experience in a specialized field.

Services of an expert approach would seem a quick and cost effective introduction of change, especially when it comes to new technology, leaving the manager to see his own business. The problem is that the manager come to have little influence on what changes, it remains the task of integrating expert solutions in the general context of the organization.

Resistance to change should be approached scientifically, so that manager can adopt and successfully drive strategies for defeating resistance to change. Changes in the organization are perceived differently by members, depending on the degree of understanding and control that people feel they are involved. The main responses, perceptions and attitudes of organization members are optimistic attitude towards change (the change is good, enthusiasm, missionary zeal, opportunities, challenges, stimulation), pessimistic attitude (when change is bad: fear of the unknown, chaos, hostility, irritability, insecurity, worry) or indifferent attitude, defined by skepticism, uncertainty, confusion, stress or creative tension.

Therefore, management must take into account the position of members of the organization to change. There are several ways of dealing with opposition to change, based on training and communication, participation and involvement, facilitation and support, negotiation and agreement, manipulation and co-option, as well as explicit and implicit coercion (Băleanu, 1996).

Addressing change through training and communication is often used in situations when there is a lack of information from opponents or the presence of inaccurate analysis. People say change only after being convinced that it takes so much time if the number of opponents is great.

Participation and involvement on the use of the originators of the lack of information but that information is integrated with all that time consuming if the change is inadequate. Simultaneously, facilitate and support is useful when the opposition is due to problems of adaptation. It fits the adaptation problems, but time consuming, costly and can often fail.

Negotiation and agreement are useful when a person or group will lose obviously due to a change and oppose considerable resistance. The way to avoid considerable opposition, but it proves costly. In case of failure, can move on to handling and co-option, when other approaches are too expensive or are not operational, this approach is a relatively quick solution, least expensive, but bring future problems if people feel manipulated.

Coercion, explicit and implicit, is used when speed is essential and change initiators possess considerable power. This approach is very fast, eliminates all opposition, but is risky, especially if people remain resentful of initiators.

In practice often encounter management of change is not connected to each other. The problems are linked, the complexity of change increases and becomes more intricate problems. Tangles can be defined as a complex set of issues or dynamic interaction problems. In order to resolve perplexities can use three types of approaches: clinical, research or design.

Clinical approach requires a holistic orientation and solving problems in a satisfactory manner, by using results of opinion polls, through participation and consensus, based on subjective aspects, unstructured, non-technical methods. The danger is that this approach will lead to increased perplexities. This approach is suitable subtle situations, such as failures to receive protest of dissatisfied employees' salaries for months.

Approach by research using scientific methods, formulate problems so one by one to be solved completely and focus on technical methods, but underestimate the social dimension of the problem. The danger is to underestimate the systemic nature of problems. This approach is suitable tough situations, such as upgrading a subunit or the entire organization.

Approach by design means that the problem is dissolved and is redefined in terms of change, based on analysis of environmental and nature issues. Approach lead to organizational learning conditions, to train staff and provide opportunities for stakeholders to participate in change. This approach is suitable for solving the change in tough situations and subtle situations, such as the restructuring of an entire organization.

Knowledge management is the premise of new strategic and managerial approaches, ensuring the success of initiative groups within the organization. Therefore it is necessary to use instruments allowing a fast approach toward the economic, social and political fluctuations (Burlea Şchiopoiu, 2005).

Organizational development approach is a holistic approach, supported by medium and long term, is multi-methodological and internal change is proposed to correlate with the environment. It is based on results and methodology of behavioral science, together with organizational theory, psychology, sociology, anthropology and political science to understand the functioning of the organization and ways that can be effectively transformed.

This approach is process-oriented rather than to objective, given that the change objectives can be achieved only through a process and that implies a facilitator who come from outside the system in which the change and have knowledge, skills and experience in change. However, this approach is participatory, since it offers recipes or formulas and is based on collective decision making, the consensus in developing the mission, goals and values of the organization.

5. CONCLUSIONS

In today's concerns for creating a secure and stable international security as a result of events that have generated significant political, social and economic, both globally and regionally, locally and nationally, it was necessary and Romania to reconsider the concept of security and how it promotes its fundamental interests, in terms of developments of European and Euro-Atlantic security. Study of national security from the perspective of integration and globalization processes, with all the chances and opportunities they bring, but with so many challenges imposed, is a necessity which has forced many researchers to give the field a vast investigation.

Change management uses the communicative purpose, first the external communication (for the simple reason that outsiders are the main factors influencing the evolution of organizations) and then the internal communication (to operationalize strategies for change and to counter resistance to change). While preparing for NATO integration, ensuring continuity of internal reforms to address key national security objectives remains a priority. During transition, Romania has focused on core reform effort connected to become a credible participant in the race to NATO. Their efforts focused ways of acting as a de facto ally in the southern flank of NATO and in the context of global terrorism campaign.

Understanding that working for himself, states must actively contribute to greater systemic safety, preventive and coordinated approach to global security, all powers supporting reform of the security at the new security architecture. It should be given a greater chance of cooperative security, which supported the provision and partnership, provides an optimistic outlook of global security and, therefore, the national and the incumbent active, only able to cope with new threats. The global space is needed some activities to help strengthen national security.

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ABSORPTION CAPACITY OF EU FUNDS IN ROMANIA

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Abstract: Most Central and Eastern European countries have encountered problems in attracting EU structural funds in the post accession period. This paper analyzes the CEE absorption capacity of EU structural funds in 2007-2010, focusing on the case of Romania. Romania recorded at the end of 2010 the lowest rate of payment for contracted grants. Among reasons for poor absorption capacity we have identified a lack of government strategy, poor administrative capacity of central and local public institutions, public-private partnerships failure, deficient human resources.

JEL classification: F15, F36, H43, O22

Key words: absorption capacity, European Union, European funds, structural funds, contracted ratio, payment ratio

1. INTRODUCTION

The Structural Funds and the Cohesion Fund are financial instruments of the policy of economic and social cohesion. These instruments sustain the reduction of the gap between the development of different regions from the member states and support, to this purpose, the economic and social cohesion. (Droj, 2010)

In financial terms, these instruments take second place as a share of the EU budget after the Common Agricultural Policy. These include:

1. European Development Fund (ERDF),
2. European Social Fund (ESF),
3. Cohesion Fund.

Through these instruments the EU aims to achieve three objectives: convergence, regional competitiveness and territorial cooperation.

Objective “Convergence” endorsing development and structural adjustment of regions lagging behind in development, is funded by ERDF, ESF, Cohesion Fund, covering areas of the regions whose GDP per capita is below 75% of the EU average. This objective targets growth for regions lagging behind, investing in the development of long-term competitiveness, employment, sustainable development, capacity institutional improvement and government efficiency increase.

Objective “Regional Competitiveness and Employment” (funded by ERDF and ESF) supports the regions not eligible for Convergence objective, covering smaller areas, including areas with socio-economic changes in industrial and service sectors, declining rural areas, urban areas in difficulty or dependent on fishing. Under this objective UE aims to anticipate and support economic change in industrialized areas by supporting businesses and individuals.

Objective “European territorial cooperation” (funded by the ERDF) supports regions, counties and transnational areas, covering areas that are the EU internal borders and certain external borders. Under this objective EU aims to strengthen cross border cooperation, transnational and interregional levels.

Since 2012, the EU should begin preparations to establish a new strategy and the amount of funding during 2014-2020. There should be a more complete and effective use of EU funds to achieve objectives within EU 2020 strategy and make the funding process more efficient. On 29 June 2011, the European Commission presented its proposal on EU budget for 2014-2020.

European Commission proposes to allocate 36.7% of seven-year budget for cohesion policy, compared to 35%, as was allocated in the past. The main changes proposed by the Commission are:

- creating an intermediate category of regions whose GDP is between 75% and 90% of average EU GDP. This new category will be added to the two existing (convergence regions and competitiveness regions). The poorest regions and Member States of the European Union would benefit from priority support to reduce economic and social gaps.
- the introduction of conditioning in cohesion policy. Cohesion policy will be based on performance and incentives to implement reforms needed to ensure effective use of financial resources.
- creating a common strategic framework for all structural funds in order to redefining strategy Europe 2020 objectives as priorities for investment.
- European Social Fund (ESF) will continue to have a key role in combating unemployment and high rates of poverty and in achieving the main objectives of Europe 2020 strategy. ESF will represent 25% of the cohesion policy budget (84 billion euros).

2. STRUCTURAL INSTRUMENTS IN ROMANIA

For 2007-2013 the EU allocated to Romania 19,667 billion euros from the Structural and Cohesion Funds. These funds can be accessed through 8 operational programs: Structural Operational Program - Transport, Structural Operational Program - Environment, Regional Operational Program (ROP), Structural Operational Program - Human Resources Development, Structural Operational Program - Increase of Economic Competitiveness, Structural Operational Program -Administrative Capacity Development, Operational Program - Technical Assistance, Operational Programs - Territorial Cooperation. Table 1 shows the operational programs which run structural instruments.

Trough Operational programs Romania runs the projects funded by EU and effectively access the structural instruments. Seven of operational programs are framed within the convergence objective. Documents of the seven operational programs have been developed by the Managing Authorities in coordinating of the Authority for Coordination of Structural Instruments. In addition to operational programs subsequent to "Convergence" objective was developed a series of territorial cooperation programs.

Table no. 1 Operational Programs in Romania

Operational Program (OP)	Percentage allocated of the total budget	Structural Instrument	Management Authority of Operational Program
1. Transport OP	23%	Cohesion Fund and European Regional Development Fund	Ministry of Transport
2. Environment OP	23%	Cohesion Fund and European Regional Development Fund	Ministry of Environment
3. Regional OP	19%	European Regional Development Fund	Ministry of Regional Development
4. Human Resources Development OP	18%	European Social Fund	Ministry of Labour, Family and Social Protection
5. Increase of Economic Competitiveness OP	13%	European Regional Development Fund	Ministry of Public Finance
6. Administrative Capacity Development OP	1%	European Social Fund	Ministry of Interior
7. Technical Assistance OP	1%	European Regional Development Fund	Ministry of Interior
8. Territorial Cooperation OP	2%	European Regional Development Fund	Ministry of Regional Development

Source: Authority for Coordination of Structural Instruments

European territorial cooperation programs involving cooperation regions with regions of neighboring Romania (in cross-border cooperation), regions in a given geographic area (within the transnational cooperation), and regions from any EU Member State (the inter-regional), through projects managed and administered jointly by partners from participating countries.

3. COMPARATIVE ANALYSIS ABSORPTION CAPACITY OF EU FUNDS IN CEE

During the 2007-2013 ten countries of Eastern and Central Europe were given the structural funds 172,6 billions euros, representing 2.7% of GDP in this period. Table 2 shows the distribution of structural funds among the 10 countries, their share in GDP, amount per capita.

Table no. 2 EU funds in CEE countries

	Population (million)	Annual GDP (billion EUR)	GDP per capita (EUR)	EU funds 2007-2013 (billion EUR)	EU funds per capita (EUR)	EU funds per GDP (%)
Bulgaria	7,6	36,0	4764	6,7	882	2,6
Czech Republic	10,5	145,9	13890	26,3	2502	2,6
Estonia	1,3	14,5	10821	3,4	2540	3,4
Hungary	10,0	98,4	9830	24,9	2488	3,6
Latvia	2,2	18,0	7993	4,5	2014	3,6
Lithuania	3,3	27,4	8232	6,8	2035	3,5
Poland	38,2	353,7	9266	65,3	1711	2,6
Romania	21,5	121,9	5682	19,2	895	2,3
Slovakia	5,4	65,9	12149	11,4	2094	2,5
Slovenia	2,0	36,1	17617	4,1	2003	1,6
CEE total	102,1	917,9	8990	172,6	1690	2,7

Source: KPMG, EU Funds in Central and Eastern Europe, Progress report 2007–2010

In the four years (2007-2010) of ongoing EU funded programs were signed contracts worth EUR 110.2 billion representing 53% of the total funds. In the same period have made payments representing 17% of the total funds and about a third of the contracted grants. Table 3 presents the projects contracted and payments within the 10 CEE countries.

Table no. 3 EU funds contracting and payment

	Available budget 2007-2013 (billion EUR) including co-financing	Contracted grants 2007-2010 (billion EUR)	Paid grants 2007-2010 (billion EUR)
Bulgaria	8,0	3,0	0,8
Czech Republic	31,0	17,2	8,1
Estonia	4,1	2,5	0,9
Hungary	29,3	15,0	4,8
Latvia	5,0	3,4	1,5
Lithuania	7,3	5,0	2,1
Poland	82,1	43,5	13,1
Romania	23,3	10,4	1,5
Slovakia	13,4	7,6	2,3
Slovenia	4,8	2,3	1,3
CEE total	208,2	110,2	36,3

Source: KPMG, EU Funds in Central and Eastern Europe, Progress report 2007–2010

Romania recorded the lowest rate of payments (7%), while Bulgaria has the lowest rate of contracting of European funds (37%).

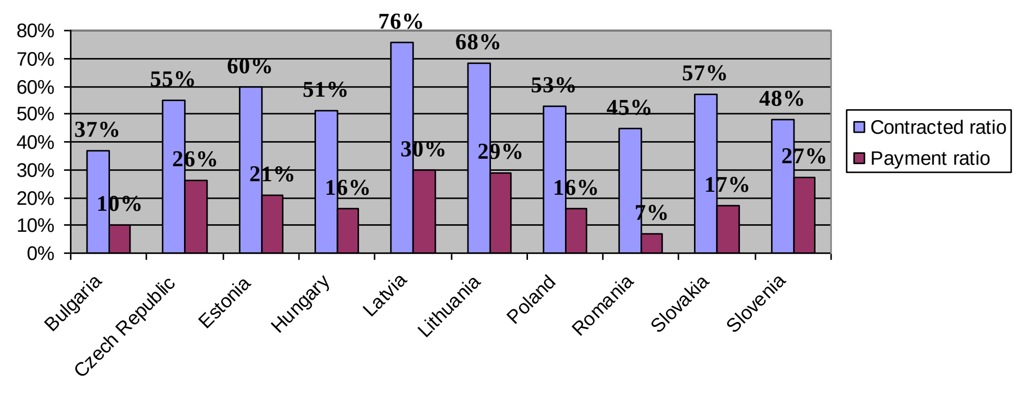

Figure no. 1 Contracted and payment ratios in CEE

In Romania, in terms of contracting the lowest rate is recorded by the operational Transport (15%), followed by Operational Programs Technical Assistance and Increase of Economic Competitiveness. The fewer payments recorded Operational Programs Transport (1%), Environment (2%), Administrative Capacity Development (4%). The highest rates of contracting and payment records Operational Programs Development of Human Resources (72%, respectively 12%) and Regional (70%, respectively 13%).

Table no. 4 EU funds breakdown by OP in Romania

	Available budget 2007-2013 (billion EUR) including co-financing	Contracted grants 2007-2010 (billion EUR)	Paid grants 2007-2010 (billion EUR)	Contracted ratio	Payment ratio
Human Resources Development 0P	4,089	2,929	476	72%	12%
Regional 0P	4,384	3,074	589	70%	13%
Environment 0P	5,611	2,390	122	43%	2%
Increase of Economic Competitiveness 0P	3,011	1,016	267	34%	9%
Administrative Capacity Development 0P	246	80	11	33%	4%
Transport 0P	5,698	836	47	15%	1%
Technical Assistance 0P	213	57	10	27%	5%
TOTAL	23,251	10,383	1,522	45%	7%

Source: KPMG, EU Funds in Central and Eastern Europe, Progress report 2007–2010

4. FACTORS INFLUENCING ABSORPTION CAPACITY

The absorption capacity is generally defined as the "capacity of the countries on low incomes to absorb productively a large volume of foreign aid", the central issue here being to prioritize the granted aid (Bourguignon and Sundberg, 2006). Šumpíková and all defined absorption capacity as "the extent to which a state is able to fully spend the allocated financial resources from the EU funds in an effective and efficient way. From this perspective, the absorption capacity of European funds shows the functionality of public institutions, capacity to make necessary adjustments to the administrative level to fulfill the minimum economic and administrative criteria for attracting EU funds. (Cace et all, 2009).

Horvath (2004) considered based on past experiences that there is a "golden rule" of EU funds absorption: the smaller the number of institutions involved in implementation of structural instruments the more likely the state record a high rate of absorption of structural funds.

Wostner (2008) establish three specific factors that influence absorption capacity:

- The macroeconomic absorption capacity that depends largely on GDP;

- The managerial-administrative absorption capacity which refers to the abilities and skills to make planning, to evaluate projects, to ensure coordination between the project partners, to deal with administrative and reporting documents required by the Commission, and to finance and supervise implementation suitably.

- Finally, the financial absorption capacity, which refers to the aptitude to co-finance EU grants, to plan and guarantee national contributions in multi annual budgets.

Georgescu appreciate that Romania's incapacity to use EU funds is endemic, even if it can be explicated by the action of various causes, including blockage in public administration under the circumstances of general and local elections in 2008 and 2009 (Georgescu, 2008). Due to reduced absorption of structural funds Romania is a net contributor to EU budget. This will increase the gap to the other CEE countries and the failure of the Convergence objective. Zaman and Georgescu (2009) considers that the main reason for poor absorption of EU funds is the lack of transparency of central government at the level of management and the ministries involved, unable to admit the existence of vulnerabilities, to identify and fix them. The central authority shows a truncated image of contracting and payments ratios, highlighting the positive and ignoring negative ones.

Berica (2010) considers that there are two types of factors that influence the absorption of EU funds:

- internal factors related to the beneficiaries of these funds,

- external factors related to the institutions that monitor the implementation of European projects.

My research was conducted through review of literature and direct observation of running European projects. The research can be classified as exploratory, representing an initial study that deals with the issue of poor absorption capacity of European funds in Romania.

Following my experience and research conducted, among the internal factors I have identified:

- lack of know-how in writing projects and the reluctance of beneficiaries to seek expert advice,
- underestimating the resources needed to carry out actions,
- overestimation of the capacity of carrying out activities to impress the evaluation committee,
- wrong choice of target groups,

- lack of funds necessary to ensure co-financing,
- non-involvement of partners in the writing projects where projects are partnerships,
- disagreements between partners regarding division of responsibilities and financial resources.

Among the external factors that negatively influence the absorption of structural funds I have identified:

- lack a clear strategy at government level to facilitate absorption of EU funds,
- administrative incapacity of institutions designated to runs projects financed from structural funds (managing authorities and intermediate bodies),
- fraud made by beneficiaries leading to blocking the entire line of funding,
- economic crisis has reduced co-financing capacity of potential beneficiaries,
- bureaucracy in the Romanian and European institutions leading to extensions of time (evaluation, selection and payment terms).

5. CONCLUSION

Based on the reasons for low capacity to absorb EU structural funds, in my opinion, by the deadline set for the 2007-2013 programming period is necessary to adopt a program of measures to strengthen administrative and financial capacity, as follows:

- establish a system of rewards and sanctions to accelerate payment processes,
- reduce / eliminate the current deficit of capacity and skills that continue to affect implementation of programs, thus jeopardizing the absorption,
- better targeting of funds through a more accurate interpretation priority objectives,
- ensuring competent human resources necessary for policy implementation and evaluation of the effectiveness of operational programs,
- designing a system for planning applications in order to coordinate the timing of launches calls for proposals, thus preventing the occurrence of excessive peaks in the receiving and processing applications,
- review of public procurement legislation to remove legal and institutional barriers that hamper the absorption of structural funds,
- granting a greater role of the eligibility criteria than project selection criteria in filtering of applications,
- exempt SMEs from the obligation to provide pre-financing guarantees, which reduce liquidity, especially when working with low budgets and moderate risk,
- assuring coherence between the strategies related to Structural Funds, on the one hand, and national policies, programs and measures supporting socio-economic development, on the other hand,
- use of external grant allocation without national co-financing or small national co-financing,
- setting realistic clear and coherent objectives, and a comprehensive indicator system of communication with potential and actual beneficiaries,
- harmonization of eligibility criteria with financial evaluation criteria of banks,

- Letters of Comfort recognition issued by banks and using them as part of the documentation submitted to obtain structural funds.

To summarize, it is necessary to classify interventions according to the total budget, complexity, risk implementation and sustainability of projects and redefining selection mechanisms, so that it reflect the new classification. It should be also explored the possibilities of reallocating funds to counter the current economic crisis.

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LOGISTICS AND DISTRIBUTION DIAGNOSISIN ORGANISATIONS FROM THE FURNITURE FIELD

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Abstract: The main objective of this article is to emphasize the practical applicability level of the strategic diagnosis of logistics and distribution in the furniture industry organisations. That is why the research methodology is based on a pragmatic approach of the theoretical elements of the strategic diagnosis of the supply and distribution chain in a case study carried out by organisations in the furniture industry. What is new in this article is emphasized by its fluctuating character and the economic instability caused by the global financial crisis as well as by the decreased purchasing power in consumer goods.

JEL classification: M10, M11

Keywords: logistics, distribution, furniture industry, strategic diagnosis, strategic partnership

1. INTRODUCTION

In the present context, the success of an organisation is built on modern management and marketing principles. Only thus can an organisation hope to be able to enter and remain on the national or international market, both without distinction, highly competitive. The strategic diagnosis of logistics and distribution in the furniture industry is to increase the chances of survival of the organisation through a correlation of internal resources and by establishing sustainable strategic alliances. (Hammervoll, 2009).

Thus, this article is structured in three parts. The first part of this paper presents the characteristic elements of the strategic diagnosis of logistics and distribution, with a special emphasis on the importance of strategic alliances and partnerships in the furniture industry.

In the second part, I have shown how, for some producers in the furniture industry, the demand is complex and it implies a series of logistic processes because they have to cooperate with other manufacturers from the complex distribution networks which they only partially control.

The third part of the article focuses on a case study of two organisations in the furniture industry:

* S.C. OGIMEX S.R.L. - Craiova
* S.C. ARABESQUE S.R.L. GALAŢI

Through our case study, we aim at emphasizing the fact that strategic alliances can be made between companies in the same activity field – S.C. OGIMEX S.R.L. Craiova and S.C. Arabesque S.R.L. Galaţi – that have formed a strategic alliance in order to diversify offer on certain segments of the furniture market, taking into account the territorial dimension of the alliance.

The financial crisis has had negative effects on sales which led to reducing the range and quality of raw materials. Therefore, the analyse of the financial impact on the organisational profit put in value the level of the organisational vulnerability and damage the competitive advantage (Autry and Bobbitt, 2008).

Strategic diagnosis of the logistics and distribution activities

The activity of an organisation can never be regarded in isolation, because it is influenced, in a complex way, by its environment. Therefore, creating the organisation strategy starts with the strategic diagnosis of the external environment.

In organisation management, it is necessary and important that managers be able to diagnose correctly the field they lead or its components in order to have a proper basis in making the right decisions.

Strategic diagnosis of logistics and distribution in the furniture field is to increase the survival chances of the organisation by linking the resources and by establishing some strategic sustainable alliances. (Christopher, 1992).

The diagnosis can be approached from two points of view: first, as an evaluation stage of the manager's activity in exercising his/her control - evaluation duties. In this situation, the diagnosis has individual character, often being very operative, and this is also possible due to the manager's experience, most often referring to elements of the current activity.

Secondly, diagnosis can be used by a group of managers and specialists in order to examine a more complex issue, as a stand-alone method. Diagnosis can be defined as a method used by managers, based on creating a multidisciplinary team of managers and performers, whose main content consists of identifying the strengths and flaws of the analysed field by emphasizing the causes that produce them and completed with recommendations for corrective or character development.

According to Richard Beckhard (1969, p. 26), there are two areas of interest for applying the diagnosis:

Systemic components (supra-system or external environment, organisational system as a whole, subsystems as components of the organisational system).

Processes (intra-systemic): of establishing objectives, taking decisions, planning, communicating, collaboration between groups, teams or sub-units, solving conflicts, etc.

Diagnosis position in a process/programme of organisational change/ development can be different from one model to another, tending however to keep a position at the beginning or at most at the middle of such an action.

Wendell French and Cecil Bell (French & Bell, 1999, pp. 105-106) claim that the organisational development process has three main components (the diagnosis, the action/ intervention and the management of the programme that implies all activities necessary to ensure the success of the programme) and 4 stages or steps that need to be taken in the following order:

Organisational state diagnosis

Actions/Interventions based on the data supplied by the diagnosis

Evaluating the actions/interventions effects

New actions or interventions

We can observe that the 4th stage is a reiteration of the 2nd which implies the appearance of a circuit based on the feedback given by the evaluations results in the process. This leads us to the idea that after the 4th stage it should follow a new evaluation stage of the new actions/interventions effects, and based on the result, the process should continue or it should end.

The most interesting thing that we can notice concerning the diagnosis in French-Bell model is that they look at the changing process in very technical terms, passing directly to action (diagnosis) without taking into account the possible preliminary stages.

However, the same authors, when talking about the actual organisational development programmes, bring into question a model that has several phases and namely the Warner Burke model that implies the following phases (French & Bell, 1999, pp. 105-106):

Initiation (the first meeting between the client and the consultant in which they try to figure out if they are compatible for collaboration)

The phase when they make a contract (in which the parties reach a written agreement stating the partners' claims, contributions and responsibilities, most often related to the necessary resources, the execution deadlines and the expected effects)

Diagnosis (the phase determining the state of affairs of the organisation which is based primarily on data and information collection and analysis)

Feedback (putting the customer in possession of the analysed and processed information in order to have a better and clearer image of the situation of the organisation)

Planning the change (involving the client in choosing/outlining the alternative solutions, in their critical analysis, in selecting the final solution and developing the action plan)

Interventions (implementing the action plan)

Evaluating the effects of the programme.

We can see that Warner Burke's model is more detailed and that diagnosis approaches, in this case, a central position in the organisational change/development programme.

2. THE IMPORTANCE OF THE LOGISTIC AND DISTRIBUTION CHAIN FOR THE ORGANISATIONS IN THE FURNITURE INDUSTRY

Taking into consideration the realities of the Romanian economy, we can say that, after 1990, the furniture industry was a strategic sector in the Romanian industry because the furniture production focused on furniture with a high VAT in processing wood.

A current trend in the furniture industry is to redirect consumers towards ecological solutions which lead to increased demand for environmentally friendly wood furniture.

In these circumstances, even in the global financial crisis, a slight development of this sector is looming due to: price, package, services, design, and eco – label.

Critical factors that influence the development of this sector consisted of quality control, implementation of European Directives requirements related to wood processing section and a clear analysis of the market information.

A very sensitive issue is the lack of capital for modernizing the production capacities, even if the investments in this field have focused particularly on the purchase of devices and advanced equipments.

Supply and development chain – consists of several storage and loading points between raw materials suppliers, producers and retailers having several and distinct features: information flow, typical orders or request signals, signs orders for product suppliers, and, in reverse, the flow of materials and products that satisfy the request. It also appears the payment and information flow that is provided when paying the products to the suppliers. (Christopher, 2005).

The command signals all over the supply chain flow vary by their frequency and the quantity of the ordered products. The raw materials flow varies in time as completed (as sort by time) and as the order is complete in time too (as service level).

This type of supply chains consists of (Murphy and Wood, 2004):

- a physical system (the movement and storage mechanism of the products);
- the commercial approach for supplying and providing the necessary resources;
- the processes that define how to achieve operational supply and distribution chain;
- the measures for presenting the performance standards and cost control;
- organisational planning and operation management
- information flow for strengthening the organisation and allowing the operation;
- system applications to optimise the operation and the information flow effectiveness.

Many producers and retailers are directed towards the ways of optimization of this mix of activities and the integration of supply/provide chain management in the reengineering process of their business. This requires a good understanding of the nature of the supply chain and fundamental importance of business effectiveness.

From the retailer's point of view, we can observe that the suppliers take into account and adapt to the distribution network through which they focus on the distribution channel. From the demand side, sales are immediately visible (Kotler, 2008). He sees a single replenishment system, with a short time, a regular routine of supply operations and the flows under control. Generally this is related to the supply side of the established way by using the bar code. The offer side is formed, in particular, of finished products in relatively small formats.

For a retailer, the demand is relatively simple even if he/she wants to buy more products. He/she has smaller logistics processes. The supply chains are complex only in complete volumes as flows towards the system. Therefore, it is easy for the retailer to control these flows (Lowson, 2001).

The producer's perspective is different because, looking to the retailer – client, the supply chain consists of a delivery network and the fast stock – buffer point to the warehouse of the factory or to the distribution centre.

From this perspective, the commands can be delayed from a low visibility of the demand and an enlargement of the consumer's supply fluctuations that can be taken, independently of these functions, from the inventories of the points set.

We can see how the supply demands vary free and the demand movement of goods and flows that are controlled by the retailer. We cannot say that producers can give a proper answer to orders and minimize their costs. They need to link these demands to that distribution chain thus gaining in several ways: from raw materials, to extended processes, capacity constraints and productive complexity, as well as materials planning from processes. (CSCMP, 2010).

For the goods producers, the demand is complex and several logistic processes are necessary. They need to share with other producers (cooperation) from the complex distribution networks that they partially control (NCPDM, 1962).

The distribution network (chain) is first formed with sources capable of bringing basic elements that are compulsory for building a logistic chain: raw materials, supplies, and other. In these types of organisations, called suppliers, we can also include sub suppliers/subcontractors, that are upstream the consumer goods producers.

A particular issue in terms of logistics, we find within SME (small and medium enterprise) that, because of the reduced capital and the impossibility to make systematic investments, cannot design efficient logistic systems (Frank, 2004).

In order to be competitive on the market, they have to use logistics services providers or consultancy in the field, especially given the present internalization of organisations (Nistorescu, 2010).

The introduction and the development of logistics in the value chain in the Romanian companies took place under the pressure of two forces, namely, the transition to a market economy, a process that pushes Romanian companies to the growing pressure of competition, lower costs of the competitors and eliminate the access to public resources that determine the firms to reduce circulating capital requirements by appealing to logistics.

Designing work together all over the logistic chain is benefit for all organisations. The main idea is to improve the managerial concepts over the product flow in both the producer's upstream and downstream in order to reach an efficient and flexible logistic chain leading to better product quality for final consumer.

3. LOGISTICS AND DISTRIBUTION STRATEGY AT S.C. OGIMEX S.R.L. CRAIOVA AND S.C. ARABESQUE S.R.L. GALAŢI

Logistics and distribution strategy between two competing organisations, but at the same time partners, is to establish clear objectives between suppliers and distributor or between distributors.

The activity of S.C. OGIMEX S.R.L. is essentially the production and sale of furniture, for the population, institutions, and businesses. Throughout the years of activity, the company has continuously increased the market trading area. Within the society, a major role is the production of the home and office furniture. The work is complex and depends on several partners we especially trade supply of raw materials contacts with. The most important suppliers and partners, we mention are S.C. ARABESQUE S.A., S.C. AXA S.A., S.C. Mobira S.R.L., S.C. TUTOMIBILI S.R.L.

SC Arabesque S.R.L. Galaţi was founded in 1994 and its purpose was selling construction materials. Arabesque has continuously and fast developed being today the largest distributor of raw materials and finishes with a complete portfolio of products and services, with operations both internally and externally. Arabesque suppliers are Romanian brand companies but also international prestigious partners from Germany, France, Italy, Great Britain, Netherlands, Austria, Spain, Sweden, Czech Republic, Poland, Switzerland. The company has a portfolio of 10,000 clients in several industries.

The two organisations S.C. OGIMEX S.R.L. – Craiova and S.C. Arabesque S.R.L. Galaţi want to promote 4 furniture products (assemblies and subassemblies for kitchen furniture).

We have made a process development plan – Optimization of the promotions on three subprocesses: planning the promotions, execution of the promotions, evaluation of the promotions.

The case study analysis we have performed with the national strategy in the furniture industry taking into account the present structure of the Romanian manufacturing industry which has a relatively small share of sectors that make products with a high added value, respectively the greater weight of the resource consuming industries.

The two business partners (S.C. Ogimex S.R.L. and S.C. Arabesque S.R.L) presentation shows that, in order to have a viable strategy for a logistic and distribution chain, these firms are oriented towards satisfying the customers as well as the competition.

Satisfying the customers and modernizing the technologies in a competitive market highly developed, is assumptions of the strategic development of the two firms to increasing the competitiveness of their distribution chain dynamics.

Increasing the efficiency of the developed activity implies a higher flexibility in manufacturing, operation efficiency, agility in the feedback given within the distribution process, finding negative effects, good information, avoiding distortions/delays of any kind and a focus on a continuous development.

For the two companies that are the object of the research, the structure on multiple echelons is a viable structure, especially if we take into account the fact that S.C. Ogimex S.R.L. Craiova counts as the main suppliers S.C. ARABESQUE S.A., S.C. AXA S.A., S.C. MOBIRA S.R.L., and S.C. TUTOMIBILI S.R.L.

In this type of echelons, S.C. Arabesque S.R.L., which has commercial centres in Bucharest, Cluj, Timişoara, Braşov, Constanta, Iaşi, Craiova, Ploieşti, Piteşti, Galaţi, Piatra Neamţ, Focşani, Târgu Mureş, Oradea, Baia Mare, is also registered, which justifies the existence of the two levels: the retailers' one and the sellers' one , we can go with our analysis towards the other higher levels as well, the producer's level, the supplier's and the primary supplier's.

The company S.C. Ogimex S.R.L. Craiova goes from the producer's level to the primary supplier's level. Therefore, there are four studies of the information circuit within the distribution chain at S.C. Ogimex S.R.L. The moment t0 is the stage where the consumer places his order and the retailer offers the product from the safety stock.

At the moment t1, the retailer, S.C. Ogimex S.R.L., places the order to the wholesaler S.C. Arabesque S.R.L. that will respond to the demand by appealing to the safety stock.

In the stage t2, the wholesaler S.C. Arabesque S.R.L., sends the order to the producer – one of the many providers presented earlier -, and this one will send the command received from the safety stock and will proceed to reconstructing the products in the stage for other possible deliveries.

The SWOT analysis is centralized below:

Table 1 – SWOT analysis for S.C. Ogimex S.R.L and S.C. Arabesque S.R.L

Strengths: - a very good market-place - important force on the market (OGIMEX has an experience of over 25 years in management, in marketing and production furniture) - modern technological line - continuity in the business development - wide range of products - nationally and internationally – ARABESQUE - representative providers - stock reductions, having available raw materials, for OGIMEX - ARABESQUE distinguishes by dynamism, fast adaptability, flexibility, customer focus, responsibility - competitive advantage in the furniture manufacturing industry due to the existence of some quality natural resources that can be exploited at competitive costs	Flaws: - the companies OGIMEX collaborates with do not always have, in their warehouses or in stock, many raw materials that can normally be found at the central warehouses mainly located in the capital – Bucharest. - the decision power of the local agents is limited, as, many times, supply blockages occur. - Oltenia Region is not a region with a tradition in the furniture production - in the last 2 or 3 years, the population and the companies' demand for furniture undersized - the financial crisis has had negative effects on sales - the lower range of raw materials and their decreased quality because of the fact that raw materials price for furniture products greatly affects the final price. - the marketplace of the furniture products shrank by over 45% in the last two years - the sale is almost seasonal (2011), depending a lot on the construction sector
Opportunities: - increasing the portfolio of clients by practicing an intense activity of media advertising - major development is expected in the furniture field, including for the eco-label furniture, based on the Romanian creation and design - proposal for a cultural change in the way planning and implementing the actions are covered, emphasizing the need of a change in the attitude and the perception of the interested parties especially the actors in the private sector. - the international commercial context is in constant movement, leading to a higher mobility of the production factors, fast relocation, fragmentation and higher specialization of activities on value chains of the products and services. Thus, competition becomes fundamental	Risks: - extremely competitive market - many of the producing factories have undersized their activity - growth is not expected in the near future as long as construction of new buildings or the old ones sales market will not recover. - fuel price rises that will affect the cost, given that over 80% of the raw materials used come from the foreign market and the cost of transportation will be very important - stipulations of more expensive raw materials - stipulations on lower demand

for a sustainable development and a coherent approach is essential for the commerce development. - the suppliers reduce the supply cycle (OGIMEX)	

The market-place of the furniture products shrank by over 45% in the last two years. Many of the manufacturer companies have undersized their activity. An increase is not expected in the near future, as long as the sector of new building construction or the market of old ones will not recover.

Therefore, finding new solutions to diminishing the effects of the fall in demands is very important. We try to find these solutions with the suppliers who have become more attentive to our needs.

One of the concessions offered was to give a bigger payment period of time for raw materials. The products promotion, as well, at a special price, according to the client and his/her financial potential, represented a strength all the partners enjoyed. The reliability of the supply, providing bonuses or other facilities compensated many times with other small gaps.

The year 2011 started with a ray of hope in the revival of the furniture market. Although the sale is almost seasonal, depending a lot on the construction sector, we try to attract the buyers' interest through advertising campaigns that promote the products at very attractive prices. We try with the suppliers to diminish the negative effects of the increased price for raw materials, but it is difficult to predict the impact that fuel rises will have on furniture products prices.

4. Conclusions

The partnership relations cannot be successful without an open and quick change of information. The firms need to reciprocally communicate their financial and operational data and also their prognosis and planning.

Planning and making reliable alliances is a complex process especially for the multinational companies. It is an objective that needs an attentive approach, coordination with the customers and the suppliers, support from the employees and their prior training, but also expenses for the training and support of the operational changes.

As manufacturers are confronted with more and more complex and competitive markets, logistics will play a greater role in customer service. Those companies that will implement the best strategic alliances with the suppliers, the transporters, the distributors and the customers, will gain higher profits than the companies that do not take into account such alliances.

Strategic diagnosis of logistics and distribution is to contribute to raising the revenues and increasing the organisation. The need to return to efficiency created the premises of the focusing and coordination of all flows of materials and information associated through a new function, respectively through the logistics function whose objective is to coordinate and control these flows in a uniquely and integrated way.

Therefore, the strategic diagnosis of logistics and distribution in the furniture field is based on improving the manufacturing technology and work productivity at company level, through advanced automation and computerization technologies, a better production organisation, developing new value chains to supply local accessories, manufacture raw materials for production such as adhesives and finishing materials.

Strategic diagnosis in furniture field requires complying with some strategic targets based on:

- customer-centred approach when it comes to planning the business and negotiation;
- data based approach that allows the exact quantification of opportunities and selection of the objectives for the growing targets;
- plan to increase co-generated in order to stimulate the demand through increased consumer and buyer satisfaction;
- three-year business plan with annual reviews.

Data accuracy combined with availability and easy strengthening generates an important value in the furniture field for both the manufacturer and the supplier.

Taking into account the particularities of the strategic alliances between S.C. Ogimex S.R.L. Craiova and S.C. Arabesque S.R.L. Galaţi, we can conclude that the other companies they work with do not always have, in their warehouses or in stock, some raw materials that are normally found at the central warehouses mainly located in the capital – Bucharest. Moreover, the decision power of the local agents is limited, as, many times, blockages in the supply of assemblies and parts of furniture occur.

Given that Oltenia Region is not a region with a tradition in furniture production and the fact that in the last 2 or 3 years, the population and the companies demand for furniture undersized, the policy of the distribution firms changed.

At present, a crucial aspect of the strategic diagnosis consists of the direction it gives to the collaboration between the furniture designers and furniture industry. Furniture exports suffer because of the acute lack of specialists in industrial design. Thus, logistics and furniture distribution come to compensate, somehow, this deficiency.

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CAREER DEVELOPMENT – THE INDIVIDUAL PROGRESS PLAN PROCESS

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Abstract: The correlation between human resource planning and career development closely links those factors within an organization focused on meeting the targets established, and getting control of important market shares. The organizations develop career development strategies because establishing the development policy of an organization is impossible without developing the employees' careers. Both theory and practice in human resources management, as A. Manolescu observed in "Human Resources", reveal that the development of new career values and requirements has led to the tendency to leave an ever greater margin for individual choice, while employees tend to show some restraint with respect to their career being planned by others. We believe that employees naturally pass the options through the filter of their own personalities, choosing the "routes" for their own careers, and adopting those choices that are the most suitable. Arguably, career planning promotes freedom of choice in career options by employees, which is achieved by adapting / generating open systems, through which employees can choose different types of jobs / posts, or select the type of training programmes for career achievement.

JEL classification: M52, M53

Keywords: Individual progress plan, career goals / objectives, professional competences / attitudes.

1. INTRODUCTION

In keeping with current practice management, career planning is done by means of a complex and systematic process of evaluation / review of employee opportunities and outcomes, a process by which individual employees identify the steps to take in order to achieve their career goals.

The Individual Progress Plan (IPP) is an action plan set by the manager in conjunction with the employee concerned, and aims to restore a dynamics of individual performance.

This means understanding, in the process, the causes of the lack of performance, or of poor performance, and taking action in order to remedy that situation. This tool should be used as a lever for progress, and not as a penalty or a disciplinary measure.

IPP is started on a mandatory basis when:

The individual interview / meeting shows that achievement is inferior to the commitment, and / or the assessment of the way the results have been achieved is poor or inadequate;

The preliminary diagnosis by the manager shows that the reasons for lack of performance, or for poor performance are individual.

If no individual responsibility is addressed and if this gives rise to no doubts, for either of the hierarchies, it follows that the Individual Progress Plan should not be started.

The manager can initiate an IPP in other cases, if he / she considers that an IPP can help an employee / a collaborator to progress more quickly (e.g. a collaborator who has an "accurate" assessment, yet a recurrent improvement point).

The complete process takes about nine months:

the first meeting for the devising of the IPP must be conducted shortly after the Balance, and no later than the end of March;

the IPP balance must be achieved before the next Balance; the mid-year interview / meeting is mandatory in the event of an IPP in progress.

The senior / superordinate manager and the human resource manager must actively follow the IPP. They support the first-level manager in ensuring the most appropriate means for the success of the Progress Plan. The Human Resources Manager must guarantee observance of the process, and advise the manager and the employee, if necessary.

The decisions on any further action taken following an IPP balance will be made in a Careers or HR Committee, which is part of the department or division in question.

2. IPP STAGES

a) ***Identifying lack of performance or poor performance*** **-** Identifying poor performance and measuring the distance between expected performance and actual performance are acknowledged, and then validated by the senior management during the Individual

b) ***Making a preliminary diagnosis*** – To begin with, the manager and the employee review, during the interview, the reasons for poor performance:

if none of the individual responsibilities is controvertible, gives rise to any doubts → the Individual Progress Plan should not be started.

In that case:

- it is the first level management's role to describe the causes that exclude IPP in the Balance support *"Possible remarks on the context"*;

- is the role of higher management to approve that analysis when signing the minutes of the interview;

- it is the role of the first-level management, accompanied by that of the superordinated management, to implement the **collective corrective actions**.

<u>if that first diagnosis reveals an individual responsibility, the IPP action plan will be established (IPP support) before the end of March, following the process described above</u>;

<u>if the first diagnosis does not cause the (individual or collective) causes to clearly emerge</u>, after an IPP meeting, the latter will be scheduled and conducted to determine the nature of the causes based on the IPP support.

In case there is doubt or dispute over the existence of individual causes, the decision to put into practice or not an IPP rests with the first-level, or the senior manager, if necessary.

c) ***Conducting the interview / meeting***

Sharing and deepening the diagnosis - The manager and the collaborator take part in an interview whose aime will be to share the analyses of the specific causes of lack of performance;

- if no individual responsibility is taken into considered, the IPP consignation will be done, and the Individual Progress Plan will not be started;
- if the conclusions reveal an individual responsibility, the IPP action plan will be established.

Designing the action plan and IPP formalization

In case the IPP is started, the manager, along with the collaborator, develops an action plan that they formalize jointly (a standard IPP documentation):

- The description of the situation where performance is lacking, its causes and consequences;
- Identifying the improvement targets;
- Identifying the development activities (working methods, training, mentoring, and other matters considered as developments of the environment, or of the manner of organization...);
- Determining the progress indicators;
- Planning the progress points.

The IPP is signed by the employee, the first-level manager, the senior manager, and the Human Resource Officer.

d) ***Follow-up / management***

The IPP must include the points of progress established between the collaborator and the manager according to a schedule developed when the plan was worked out. This course does not replace the mid-year interview / meeting, which is compulsory for a IPP in progress.

In the specific case of a mobility occurring during an IPP, the action plan should be followed by both the new hierarchy and the new HRR, otherwise it must be adapted to the new hierarchy.

e) ***Devising the balance*** - During the last promotion meeting, the manager and the employee work out a balance of the results achieved through the IPP. That balance or estimate is signed by the senior manager for the subsequent actions. The balance must be prepared before having the next individual meeting:

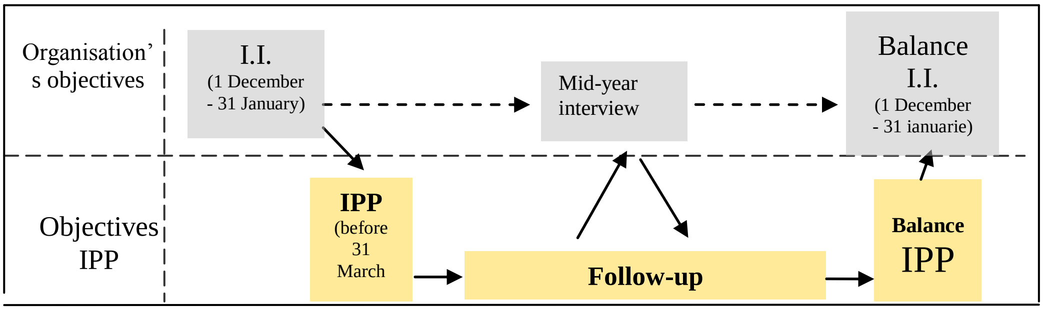
The decision on the further actions is made in the Careers or HR Manager Committee of the department:

if the improvements are significant and sufficient –the Committee decides on the closure of the IPP:

if the employee did not show significant and sufficient improvements – the Committee decides:

- to continue the IPP, with or without modifications;
- continuing the IPP, and refocusing the collaborator towards a post that is more suited to his / her profile;
- the pursuit of another IPP with no object, and that case is submitted to the Department’s decision. The manager sees the collaborator, and informs him / her of the decisions taken.

It should be noted that IPP is a process started subsequent to an Individual Meeting. The follow-up of an IPP should be conducted in parallel with the normal pursuit of individual goals set in the individual meeting:



IPP is not a solution to all situations of non-performance. The first-level manager and the senior manager, with the support of the HRR, makes the alternative provisions that he will follow.

First of all, it is necessary to ensure an adequate understanding by the collaboartor of their mission and objectives, as defined in the individual interview.

The individual interview / meeting is the moment that triggers the IPP, but the manager should not wait for the interview / meeting to give the collaborator a "feedback". In working outt the conclusions of the IPP balance, it is important to take into account the collaborator's commitment and motivation to progress.

Defining the objectives / **Training**: - The clearly defined goals make full sense, and allow everyone better understanding of their contribution to the success of the organization.

a) A limited number of **objectives for all**.

The number of the objectives is limited: <u>minimum three</u> and <u>maximum five goals</u> for everybody:

- at least <u>one collective goal</u> for the whole team (e.g. the department / division / function / project level);

- at least <u>one objective</u> for which the collaborator is <u>directly responsible</u>.

b) Specific objectives, clearly expressed in KPI, in terms of results for everybody.

All the collaborators' objectives, whatever their level of responsibility or function, should <u>contribute to a KPI</u> (professional attitudes and fundamental managerial competences / skills) of the first-level organization. The declining of the objectives aims at turning the KPIs into the results expected from each party, in order to ensure the company's priorities.

In setting the objectives, it is necessary to raise the question of the relationship between the objectives and KPIs, and, if that connection is not obvious, the objective in question will no longer be retained. It is important to set goals to which the employee is able to contribute.

The objectives of all employees must be prioritized (e.g. 1, 2, 3, 4, etc.).

The ***objectives*** should be ***expressible through figures, having a commitment and targets*** - set at two levels:

The commitment means taking full responsibility for achieving an objective, which is measurable and quantifiable. The commitment represents , for the team or the collaborator, a binding obligation to achieve the results.

The target is a combination of all the opportunities to exceed the commitment; it represents, for both the team and the collaborator, a more ambitious goal. Reaching it requires surpassing the limits, and must therefore constitute a major progress. Between three and five goals can be set for each employee, which should be consistent and prioritized, formulated in terms of results, and in direct connection with the Organization Contract.

If an employee depends on the man in charge of the project (the project manager), a senior / top manager, or a Transverse Team Pilot, the first-level manager must confer, and agree with those people holding responsibilities before the meeting with the employee / collaborator.

By way of a warning, in the “Objectives for the current year, only the objectives declined from the KPI will be stated; those objectives, meant to improve professional attitudes, or other points, should be specified in “Actions for improvement”.

In terms of future training, the Individual meeting / interview is a good time to jointly decide on the training courses to be planned for the next year, with the support of group training guidelines (e.g. language training, IT tools, etc.), and focusing on the competences and skills deployed in the post, and the skills to be developed for future guidance.

The individual meeting is an expression of the collaborator’s individual training plan. The training needs have to be worded accurately, especially by means of the training catalogue that presents the trening offer, with the consent of a career or HR committee.

The following points will be considered:

To select priority targets that the employee knows how to place on a level of achievement on a regular basis;

Not to decline economic objectives at lower levels that could render a complex operation, and emperil their achievement;

To select possible targets with no risk of being revoked during the year;

To ensure, during the interview, a good understanding by the collaborator:

- of the role and objectives set in the individual meeting;
- of the link between each goal and the respective KPI.

To limit the number of indicators: an engagement indicator and a target for each objective;

To ensure coherence between the indicators retained hierarchically.

Some objectives can be shared with the collaborators / employees of a different entity. In that case, the managers of both entities will ensure consistency in terms of the complementarity of the two entities in order to achieve the result desired.

The discussions concerning the instruments employed to achieve the their goals can be formalized in the “Comments by the collborator”.

Professional competences / skills and attitudes

These manners of conduct will serve as benchmarks and advance stages for:

- Any employee in his / her every day work (Professional Attitudes);
- Any manager, whatever his / her level of responsibility (basic managerial competences / skills).

Built on a set of principles and practices that the organization wants to encourage, it will constitute a first common referential framework, shared by managers and individual collaborators during the individual interview / meeting, which remains a basic managerial act of the organization.

3. AS PROFESSIONAL ATTITUDES, THE FOLLOWING SHOULD BE ENUMERATED

Priority for obtaining the results the organization wants

Manifesting interest in the organisation's results;

Ongoing concern about the economic impact of their actions;

Supporting, and applying the economic arbitrations within the organisation;

Choosing the solutions that are of interest for the organization.:

Customer-orientation

Taking interest in business and commercial information, and the quality of the organization's products and services;

Respect of the existing standards, and proposing improvements;

Managing the work with constant regard to customer satisfaction, including internal customers within the organization.

Loyalty to the organization

Supporting the organization's business strategy, its products, and acting as brand ambassador in both the internal, and external environment;

Observes, and complies with the organization's policies and rules (confidentiality, code of ethics, charter of suppliers, health, environmental charter, fundamental rights charter, security and working conditions ...);

Implementing the decisions of the organization;

Respect of their own commitments.

Transversality and solidarity in achieving performance

Supporting their colleagues in difficulty;

Solidarity with the results of their team or the project results, whether good or poor;

Cooperation with other sections of the company, and recognition of the quality of their work;

Getting involved in transversal actions to solve problems.

Transparency

Expressing views freely and openly;

Clearly communicating the information needed for the other members' actions;

Timely reporting difficulties;

Acknowledging their own errors, and turning them into a factor of progress.

Adriana Şchiopoiu-Burlea[39] believes that "by training employees' skills urmărescă, one must not only try to solve problems, but to achieve a investment, which is profitable in most cases, or indispensable in others."

[39] Burlea Schiopoiu A.,*Managementul resurselor umane*, Editura Universitaria, Craiova, 2008, p. 149.

4. Conclusions

These concepts are important to the improvement of career management and the relations with other human resource management activities.

Career Management is "process of designing and implementatating the goals, strategies and plans that allow organizations to meet human resources needs, and individuals to fulfill their career goals[40]".

Evolution / career planning is an integral part of human resource planning, and performance appraisal is one of the prerequisites to career development.

For those ambitious and eager for advancement within an organization, any opportunity for advancement is a motivator.

Formaliying the offer of promotion opportunities since the start of their careers is a way to improve company performance.

The career development programme serves a dual purpose: it offers good employees a chance for promotion, and ensures the company's requirements for expansion and adaptation to market demands.

Lack of personnel policies with clear and concrete objectives, having a legal or factual basis, or promoting false, inadequate policies, lacking coverage in the results obtained, are not good premises for ensuring competitiveness or success in an organization in general, and especially in a firm. The specialists in the field of human resources are tasked to define and develop strategic management policies that, once accepted, must become, or serve as a reference point for staff development programs or procedures, as well as making decisions in this area, decisions intended to operationalize the policy in question.

Strategic career management plays a critical role in defining the psychological contract that reflects what employees and employers mutually expect. These strategies are permanently changing, due to contextual changes, so as to become as realistic and motivating as possible, capitalizing on the changes in organizational culture, and promoting effective organizational behaviour.

Moreover, strategic management serves as a reference point in developing personnel practices, and making decisions necessary, and materializes in the specific programs or procedures that make them possible.

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[40] L.A. Klatt, R.G Murdick, F.E. Schuster, op.cit., p.380-381.

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ORGANIZATIONAL CULTURE – BASIC ELEMENT OF ORGANIZATION PERFORMANCE

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Abstract: The increasing mobility of the socio-economic life and the acceleration of the scientific-technical progress have caused profound changes in society and, implicitly, within organizations. They had to show a great capacity for adaptation, reorganization of activities and flexibility in the attempt to overcome competition and become efficient, a fact which led to changing the management methods, the organizational structures and, implicitly, to changing the organizational culture. It is crucial to know the culture of an organization for its operation, the cultural factor having a strong impact on the management functions and on the manager’s actions. The stronger a culture is, the easier the employees accept the organization’s values and trust them.

JEL classification: M10, M14

Keywords: values, beliefs, efficiency, culture, organizational culture.

1. INTRODUCTION

Organizational culture studies have been undertaken since the ‘40s but once with the “corporate cultural boom” of the early ‘80s, they have extended. In the last decade the interest in organizational culture, both from academics and practitioners, has been growing.[41] The concept of organizational culture offered a way business people to discussing the key elements of organization, which are not easy to quantify or integrate in the traditional categories, such as leadership skills or human relations. Thus, organizational culture has gained a permanent place of particular importance in relation to the organizational behaviour.

2. A THEORETICAL APPROACH

Organizational culture represents a set of artefacts, values and beliefs that arise from the interaction of the organization’s members. [42]

Managers and the executives are directly interested in organizational culture, as it often is a means to improve productivity, effectiveness and efficiency. Other managers pay attention to it considering that their own organizational culture is unique and represents an effective tool to attract high quality staff and to distinguish the organization from competition. Employees are directly interested in organizational

[41] Alvesson, M., Understanding organizational culture, Sage Publications Ltd., Thousand Oaks, SUA, 2002
[42] Lim Bernard, „Examining the organizational culture and organizational performance link”, Leadership & Organization Development Journal, 1995, Vol. 16, Issue: 5, p.16 – 21

culture when they decide on getting a job in a company or another. Each one of us needs to work and we want to work in an environment compatible with our values and ideas. [43]

R. K. Dwivedi sees organizational culture as a set of long-lasting features that describes the organization, sets it apart from other organizations and influences the behaviour of its human resources.[44]

Edgar Schein considers organizational culture “a pattern of basic assumptions, learned, discovered and developed by a certain group, a certain community, in the process of learning how to successfully solve the problems of external adaptation and internal understanding, which worked fairly well for a certain period of time in order to be validated and which will be sent to the new members as the appropriate way to perceive, think and feel concerning those problems.” [45]

Hofstede G. considers organizational culture a mental programming which distinguishes the members of an organization from the members of another organization. [46] This means that every person presents a certain mental programming, which is stable over time and which determines the person to have approximately the same behaviour in similar situations. The source of our mental programming comes from the social environment in which each of us grew up and from where we gained our life experiences. This programming comes from family, continues with the neighbourhood, school, youth groups, place of work, community.

According to this famous Dutch professor, organizational culture is:

• holistic, meaning that it represents more than the sum of the parts;

• historically determined, as it reflects the organization’s evolution over time;

• connected to the anthropological elements (symbols, rituals, etc.)

• socially based, as it is created and maintained by the group of people that make up the organization;

• difficult to change due to the complex human elements involved.

Organizational culture represents the set of symbolic representations (signs and symbols), as well as of the shared values that determine individuals’ behaviour.[47]

Dumitru Constantinescu considers organizational culture a “system of common rules, beliefs, values and expectations that bind together an organization’s employees, creating shared meanings among them.” This system takes the form of customs, norms and habits that represent the firm’s values and convictions. Culture reflects the personality of the entity, and, as in the case of people, it allows the attitudes and behaviours of its members to be anticipated. Organizational culture is therefore one of

[43] Keyton Joann, Communication & Organizational culture. A key to understanding work experience, 2nd edition, Sage Publications Ltd., Thousand Oaks, SUA, 2011

[44] Dwivedi R. K., Organizational culture and performance, M.D. Publications Pvt Ltd., New Delhi, India, 1995

[45] Schein E., Organizational Culture and leadership. Jossey – Bas Publisher, 4th ed., San Francisco, SUA, 2010

[46] Hofstede G., Hofstede G. J., Minkov M., Cultures and organizations. Software of the mind. Intercultural Cooperation and Its importance for survival, 3rd ed., McGraw Hill Publishing House, SUA, 2010

[47] Șchiopoiu-Burlea A., Managementul resurselor umane (Human resources management), Universitaria Publishing House, Craiova, 2008

the aspects that serves to define the company and to distinguish it from other entities from the same sector.[48]

Cultural organization essentially represents a sum of values and norms of the organization (company), of its employees and managers and, especially, those aspects which are shared to the new employees as well. The employees learn about organizational culture both through training from the organization and through what they listen to and watch every day.

A successful organizational culture is more than a management technique; it is more than the "plan that must be achieved this month," that the employees can ignore and which the management can forget after a while. This is not just a tool or an immediate solution: it is a way of life. [49]

Functions and characteristics of organizational culture

Organizational culture performs a series of functions within the organization:

1. Targeting function

This function of organizational culture refers to the fact that both the entire organization and the employees' personal values and attitude are targeted towards organizational objectives. The essence of building an outstanding organizational culture is to create a strong internal mechanism. Achieving such a mechanism determines all the staff to become aware that the organization is struggling to achieve great objectives, which not only give rise to creative tactics and strategies, but they also influence the staff to create individuals able to sacrifice themselves to achieve organizational goals.

2. Standardization function

By creating a system of shared values, organizational culture creates a common way of thinking, changing faith in a sort of tendency at a profound psychological level of the staff and then in a sort of response mechanism reconstructed in the transformation process. As long as there is an external signal that stimulates, the positive response is created and it quickly changes into anticipated behaviour. Through coordination and self-control, (…) the psychological conflict between autonomy and the reality of being controlled is attenuated, leading to the creation of a harmonized organizational culture, united at all hierarchical levels.

3. Conglomerate function

Organizational culture is a group awareness created by the entire staff. This function is a type of link that unites people from all points of view, from all hierarchical levels, around the organizational culture. Organizational culture connects the personal thoughts, feelings and values of the employees with the organizational safety. At the same time, the employee has a sense of ownership and acceptance of the organizational culture within the company.

4. Motivation function

Organizational culture focuses on people; its nucleus is made up of common values. A remarkable organizational culture means creating an environment supported and respected by everybody. An excellent cultural atmosphere usually creates an incentive mechanism which determines each employee's contribution to be valued and rewarded in time by the leader and other colleagues. This way, by encouraging the

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[48] Constantinescu D., Management – Funcții, Structuri, Procese (Management – Functions, Structures, Processes), Universitaria Publishing House, Craiova, 2008

[49] Dygert B.C., Jacobs A. R., Managementul culturii organizaționale. Pași spre succes (Organizational culture management. Steps to success), Polirom Publishing House, Iași, 2006

employees to dare to commit to the organization, a continuous innovation and a constant progress are achieved in order to create self-value and development.
Furthermore, the formation of organizational culture not only influences the company itself, but it also has a certain impact on the public, and also on national and international organizations, it is part of the social culture, improving at the same time the company's popularity; we can briefly state: organizational culture presents extremely important functions.[50]

Knowing the functions of the organizational culture is constituting the base of the notification and of revaluating of the major importance that this is having for each company, indifferent of his domain of activity, dimension, economic potential or affiliation to a specific national culture.[51]

To create an organizational culture aligned with the global socio-economic requirements, it is necessary to highlight a series of essential features. [52]

Table no. 1 Essential features for creating sustainable organizational cultures in the global economy

Essential features	Description
Personal initiative	The degree of responsibility, freedom and independence offered to an individual within the organization
Risk tolerance	The way in which the employees show an attitude of risk taking, flexibility, adaptability
Direction	The degree to which the organization creates specific performance standards and objectives
Integration	The way in which the constituent units of the organization work as a whole, correlated and coordinated
Support offered by the management	The manner in which managers offer support and assist the staff, informing them properly and clearly
Control	The rules and regulations existing in an organization, as well as the level of direct supervision used to control the employees' behaviour
Identity	The way in which the employees identify themselves with the organization as a whole, rather than with the group they belong to or with their field of professional expertise
Reward system	The degree to which the rewards (promotions, salary increases, etc.) are granted equitably, according to the level of performance achieved
Conflict tolerance	The manner in which the organization's members show an open attitude concerning conflict, dealing with criticism constructively
Communication	The existence of an efficient communication system that contributes to achieving the organizational objectives

Source: adapted from Robbins S. P., 2006, quoted Huțu A. C.

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[50] Zhang X., "On how organizational culture impacts its performance and competitiveness, Science Innovation Academic Frontier", *Management& Engineering Journal*, 2008, p. 391 – 392

[51] Tureac C., E., Turtureanu G., A., The Culture and her influence over the organization, Megabyte Magazine, 4th volume, No. 2, Titu Maiorescu University, 2008

[52] Huțu C. A., Cultură organizațională și leadership. Fundamentarea capacității competitive a firmei (Organizational culture and leadership). Substantiation of the company's competitive capacity), Economic Publishing House, Bucharest, 2007

An ideal organizational culture is stable and flexible – stable in terms of vision, values and mission of the organization, but, at the same time, flexible concerning its structure and activities; it is the one that focuses both on external adaptation and on internal integration, capable of satisfying the consumers, the market and the employees at the same time.

3. THE LINK BETWEEN ORGANIZATIONAL CULTURE AND COMPANY PERFORMANCE

Organizational culture represents a factor of success or of its failure. When we talk about organizational culture we refer to the behaviour patterns and standards that it focuses on. Some organizational cultures encourage productivity, other do not. The culture of our organization shows us what is right, what is wrong, what to believe or not to believe, how to react, what we feel. Organizational culture shows us when we must focus on the quantitative or qualitative aspects. Successful organizations have in common a series of basic values and beliefs.

These organizations are careful to the market and to consumer requirements. Regardless of the "scale economy" argument, which shows that the large companies are more efficient, many successful organizations consider that "small equals good." This is based on the belief that work should be satisfactory, that employees can make decisions independently and that the result is thus an increased efficiency. Successful companies are often characterized by a rapid and intense communication, openness, a "let yourself carried away" attitude of the staff and the feeling of informality.[53]

Kotter and Heskett (1992) conducted what is considered probably the most extensive study of the relationship between culture and performance, and they conducted a series of investigations on a number of 207 companies, over a five-year period. The research was based on a series of instruments to measure culture and long-term economic data, each study being built based on the previous survey. The original objective was to examine the relationship between the "strong cultures" (that have a clear and coherent system of values, with a distinct way of doing things) and the long-term performance. Only a weak correlation was found between the indicators of a strong culture and the long-term performance. However, the subsequent investigations have shown that the companies which were culture-adapted to the external environment have developed better than those which had a strong culture, but which did not take into account the external environment.

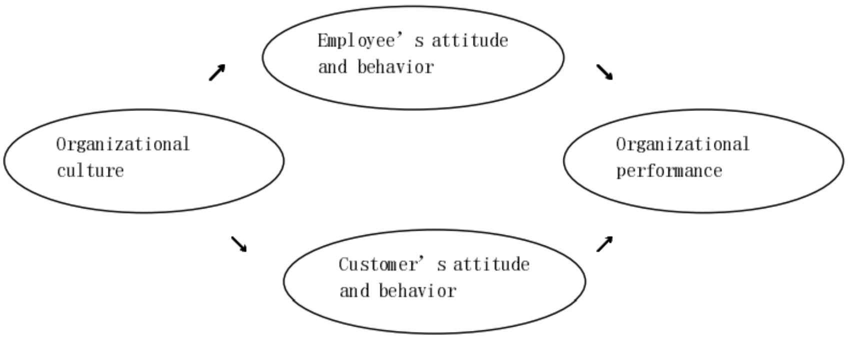
The authors continued with a study to research the way in which the changing environment affects culture and performance and they discovered that firms with steady economic performance tend to create basic values that underline the importance of adaptive culture. [54] Studies have suggested that organizational culture is a kind of complicated and comprehensive composition element, it is a kind of values that is shared by the members, it is a kind of inherent regulatory faith. It will not only influence people's behaviour but also decide working atmosphere, leadership style and the formulation of strategy. Organizational culture influences the operation of

[53] Field M. Llyod , „Culture and corporate success. How your organizational climate sets the stage for success", 2007, available online at http://www.lloydfield.com/articles/Culture%20and%20Corporate%20Success.pdf

[54] Popescu I. D., Comportament organizațional *(Organizational behaviour),* ASE Publishing House, Bucharest, 2010

organization on the two aspects of organization and individual, and then it will exert an influence on organizational performance.

The impact of organizational culture on organizational performance can be decided by the degree of how much main values and beliefs of organization is accepted deeply and widely, its influence can be divided into three aspects: firstly, cultural direction, it means the accurate degree of how much does organizational culture influencing organization's operation direction; Secondly, cultural permeability, it refers to the degree of how much does organizational culture is shared by all the members in common; Thirdly, cultural intensity, that is the degree of how much does the employees abide by the culture.



Source: Zhang X.,"On how organizational culture impacts its performance and competitiveness, Science Innovation Academic Frontier", Management& Engineering Journal, 2008, p. 393

Figure no. 1. The model of organizational culture impacting on organizational performance

As the two important factors that influence organizational performance, employee and customer's attitude and behavior are impacted by organizational culture in some degree, as figure 1 shows. Organizational culture is an effective factor that determines whether the organization can obtain outstanding performance or not, it is an effective factor that determines organization's response and attitude to particular incident and external change of environment too. Organizational culture can influence organizational performance through employees and customers.

4. CONCLUSIONS

Although there are many meanings of the cultural organization concept, one aspect is found in all of them, namely the strong impact that organizational culture has on performance, on the final result of the company. Organizational culture allows the identification and description of many real elements, of human nature from the firm's life, with important consequences on the conduct of business. Organizational culture exists regardless of the organization, it is the one "binding the organization" in a chain of implied significances that provide human specific meanings to all the organizational activities and processes. There is dialectic interdependence between culture and organization. The human group is integrated in the basis of the elements of culture, and through their help action is regulated and control is carried out on individuals. Culture shapes the organization; the organization creates its own culture. The study of an organization's culture will become increasingly necessary in the future because we cannot lead an organization without knowing its values, the organization being a small nation that has its beliefs and values. Only by knowing the culture of an organization can we act in accordance with it and only by taking it onto account can we change it.

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ECOLOGICAL TAXATION, SOURCE OF INCREASING LOCAL REVENUES

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Abstract: The paper makes a short presentation of the aspects concerning the growing pollution and the degradation of the environment due to the consumption of energy which is so necessary to the contemporary society. The alarm was extremely seriously taken into account. Measures were taken in this respect in almost all developed countries. The main purpose was to make the consumers as well as the beneficiaries aware of the danger. Romania, as a member of the European Union, has created the according legislative framework, but as far as the practical concrete measures, it still has a long way ahead. The introduction in the structure of the tax on property (buildings, transport means, land) of a variable which should reflect the degree of pollution of the use of the respective good will have a double purpose: first, it will make the owner aware of it, and secondly, it will contribute to the increase of the local revenues.

JEL classification: H21, H23

Key words: the energy consumption, ecotaxes, the energetic coefficient of correction

1. INTRODUCTION

The necessary of the energy consumption for mankind has registered an increasing curve, the values of this consumption being related to the period of human society development. Thus, at the beginning of its evolution, the necessary energy was supplied by the daily food, starting from a minimum of 1800 calories/ person, the equivalent of 2 Kw/day/person, used for maintaining the constant body temperature and the mechanical energy necessary to contract the muscles, the process being realized by transforming the chemical energy of the food.

The appearance and the development of the industrial society leads to the consumption of energy from 8 Kw/hour/ day/ person for food, 36 Kw/hour/ day/ person for household business, 27 Kw/hour/day/person for industrial consumption, 16 Kw/day/person for transport[55].

The worldwide energy consumption has registered a significant increase along the mankind evolution. Thus it has been registered an annual increase rate of up to 2% per year until 2020, by the end of the year 2035 the consumption should be double,

[55] Lăzăroiu, Gh. – Impactul CTE asupra mediului, Editura Politehnica Press, Bucureşti, 2005, pg.17

while at the end of 2055 it will treble, all this if one takes into account as reference the year 1998[56].

The greatest level of energy consumption was registered in transports as it makes use of a 95% percent while an annual increase of 1.5% is estimated in the developed countries and 3% per year in the developing countries[57].

2. The Energy Consumption and the Ecological Problems

The growing energy consumption triggered by the improvement of the welfare has two important consequences and man being its beneficiary should take them into account. Thus one refers to:

a) the continuous reduction of the raw materials necessary to produce energy (fuel: oil, gas, coals), they are generally unrenewable and depleting;

b) the growing environmental pollution due to the noxes resulted from the energy consumption.

The direct relation between energy and pollution is suggestively schematized in figure 1.

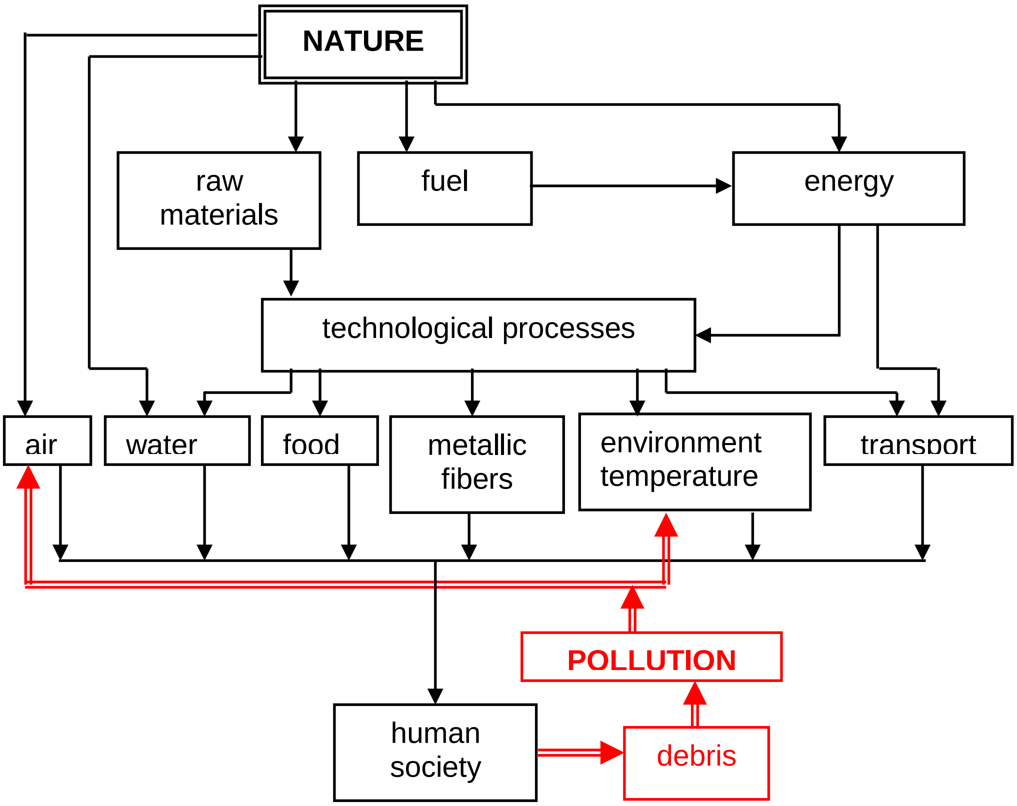

Figure no. 1 The negative reaction of the pollution

Source:Elaborated by the author using the date from Lăzăroiu, Gh.-Impactul CTE asupra mediului, Editura Politehnica Press, Bucureşti, 2005, pag. 20

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[56] Lăzăroiu, Gh. – Impactul CTE asupra mediului, Editura Politehnica Press, Bucureşti, 2005, pg.20

[57] Idem 2.

Therefore it is compulsory the careful study, explanation and solving of these issues, by creating a proper legislative framework. According to the stipulations of the Regulation CEE 84/360 from 28.06.1984[58] adopted by the Romanian legislation as far as environmental protection is concerned, air pollution represents the direct or indirect contamination of the atmosphere by man with substances or energy which has a harmful effect on man's health, biological resources, ecosystems and deteriorate material goods, the goods for leisure or other things related to the environment. In art. 2 from the Norms of the Environment Protection, pollution is defined as the direct or indirect contamination of the environment with a polluting agent which may be harmful for the human health or/ and the quality of the environment[59].

The ecological impact of this process, materialized by the reduction of the resources of fuel and raw materials and the growing polluting effect is rendered in table 1.

Table no.1 Energy production and its impact on the environment

TYPES OF IMPACT		ACTION	THE BEARER OF THE ACTION
The exhaustion of natural energetic resources		Consumption of unrenewable resources	Supplies of natural energetic resources
Greenhouse effect		Gas emission with greenhouse effect: CO_2; CH_4; N_2O; O_3; NO_X	The thermal equilibrium of the planet
The degradation of the ozone layer		Gas emissions with photochemical effect	Ozone layer
Ecological toxicity	Toxicity	Emissions of chemical substances, heat, radioactive	People, fauna, flora
	Acidity	Emissions: SO_2; NO_2, HCL	Flora, fauna
	Eutrofizare	Nitrogen emissions and phosphorus in used waters	Flora, fauna

Source:Pătraşcu, R. - Producerea energiei şi impactul asupra mediului in condiţiile dezvoltării durabile. Editura Politehnica Press, Bucuresti, 2007, pg. 94.

If one takes into considerations all these consequences which can no longer be neglected, then the solution is finding alternatives, that is reduction of consumption by the increase of energetic efficiency realized by identifying and using other resources less polluting, with higher efficiency and, as inexhaustible as possible.

3. Measures Taken by Romania for the Optimization of the Energetic Consumption

By ratifying in 2001 the Kyoto Protocol at the Convention – of the United States on Climate Changes, between 2008-2012 our country took the responsibility to reduce with 8% gas emissions with greenhouse effect, as compared to 1989.

Also, if one takes into account the low level of energetic efficiency compared to the nine post communist countries which later on adhered to EU, our country elaborated the National Plan of action in the field of energetic efficiency, whose target

[58] Directive 84/360 CEE Official Journal Of The European Communities, 28 june 1984.
[59] OUG 195/2005 privind Protecţia Mediului, publicată în M.OF. 88/2006

was to cut off with 9% the consumption of the final energy between 2008-2016, compared to the medium consumption between 2001-2005[60]. This national strategy was triggered by the Regulation no. 2006/32/CEE concerning the energetic efficiency at the final users.

The level of energetic efficiency registered between 2000-2006 by Romania was of 67 € per consumed fuel tone compared to 100€ per tone realized by the other post communist countries member of the UE. Thus, as a result of a study made by CEROPE, Romania continues to register the lowest energetic efficiency in EU with a consumption of 1.226 kg of oil for every 1.000€ produced, as compared to the Czech Republic, 851€ and Hungary 596€[61].

The content of the above mentioned national strategy, refers to a first measure which hints at the thermic insulation of floor buildings built between 1950-1990. This measure should be taken by the lodgers, both persons and companies. They will be the beneficiaries of the thermic insulation of the external walls, roofs, pipes from the technical underground as well as the replacement of windows, the payment being supported 34% from the state budget, 33% from the local transfers with a specified destination and 33% from the funds for reparations of the association of proprietors.

The feasibility study of the project indicates an economy of energy of around 36.000MWh/year. Also, as a result of a study made by the Ministry of the Local Development and Tourism, during 1950-1990 the Romanian buildings 37% are between 20 and 40 years old, 28% are between 40 and 55 years old, 25% older than 55 years, 3% up to 10 years, 7% between 10 and 20 years, and the energy consumption for a flat of average size is 55% for heat, 21% for house warm water, 14% for lighting, and 10% gas consumption for cooking.

The same study demonstrates that a two room block of flats built between 1950-1990 makes use of twice more energy than a similar thermic insulated block of flats, as 15-20% of the heat is lost through the ceiling, 20-25% is lost through the external walls, 20-25 % through the outside windows and doors, 5 and 10% through the non insulated pipes from the technical underground. Thus, for a block of flats non insulated the yearly average consumption is about 180 Kwh/mp which produces 8700 kg CO_2 as compared to an insulated flat with an average consumption of 100 Kwh/mp which produces 4200Kg CO_2[62].

4. Ecotaxes, Source of Local Budget Revenues

In order to accomplish the public politics programs transferred to local administrations as a result of the process of administrative decentralization and the growth of financial autonomy on one hand and the fulfillment of the long lasting development targets on the other hand, it is compulsory to maintain a harmony between transferred tasks and alloted financial revenues.

In addition to this, the national legislation concerning the protection of the environment settles down the fact that the environment protection represents the obligation and responsibility of the local and central public administration, both persons and companies. In the respect of this obligation, the Fundamental Law of Romania

60 http://ec.europa.eu/energy

61 www.cnp.ro - CEROPE. Taxele de mediu în România

62 www.mdrl.ro/ - Ministerul Dezvoltării Regionale şi Turismului – reabilitarea termică a blocurilor de locuinţe

establishes that the state recognizes the right of every person to indulge in a healthy and ecologically equilibrated environment and at the same time it assures the proper legislative framework in order to exert this right[63].

An overall analysis of the Romanian taxation puts into bold relief the fact that the pressure of taxation is not evenly distributed on certain activity groups. Thus one observes an excessive taxation pressure on labour (tax on income, tax on profit) followed by a taxation on consume activities. At the same time, tax on pollution is insignificant and applied at a low scale contrary to UE recommendations to transfer the pressure of taxation from labour taxation to consume and pollution taxation.

Starting from the economic role of taxation as an instrument of stimulation or restriction of some actions[64], the quantum of taxes on pollution may influence the consumers to make a decision about the use of some thermic insulation materials for building or restoration, the choice of some means of transport less polluting or the purchase of some domestic energetic consumers tailored up in efficient groups of consume. All these measures should be correlated with the need to improve the resent and next generations standard of living. A significant example in this respect, meant to counterbalance the need to use fiscal measures for the protection of the environment, with the will to improve the standard of living of the members of the community, represents the use of taxes for the protection of the environment in accordance with other instruments based on the market.

It is compulsory the establishment of an adequate taxation framework in the environment field with a view to protect it, in accordance with internal and international regulations where Romania takes part [65.]

Thus, in my opinion, the introduction in Romania of this model practiced in some EU countries (Germany, Netherlands, Austria) imposes the set up of a tax on the environment protection (ecotax) which should influence the tax payers' behaviour as energy consumers so as to simultaneously achieve some economic and fiscal politic targets, if one takes into account the indirect costs associated with the production and energy use.

In this context, it is necessary the creation of a new framework concerning the way property is taxed in accordance with the impact of tax on goods and most of all the tax on the environment protection.

a) tax on buildings; b) tax on means of transport; c) tax on land.

The reformation of the tax on property should lead to the creation of a mix between the existent tax and the tax on pollution if one takes into account the general rule according to which the one who pollutes pays. In this respect, the revenues obtained should be assigned to local budgets in order to be in accordance with the principle of the administrative and financial autonomy.

5. SYSTEM OF CALCULATION OF THE FISCAL PRESSURE ON BUILDINGS

In order to meet the demands of the legislative package elaborated by the Romanian Government concerning the introduction of the regulations established by the National Programme of Reform 2011-2013 and in the first National Plan of Action

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63 Constitutia României, Art. 35, republicata in M. OF. 767/2003

64 Matei, Gh. - Finanţele publice, Editura Universităţii din Craiova, 1998, pag. 175 – 178.

65Legea nr. 3/2001 pentru ratificarea protocolului de la Kyoto la Conventia – Cadru a Natiunilor Unite asupra Schimbarilor Climatice Publicata in M.OF. 81/2011 in the Field of Energetic Efficency, as well as the Directive 2002/1991 EC –Energy Performance of Buildings Directive, one imposes the introduction of a tax on environment protection for the energy consumed in order to get a comfortable atmosphere in buildings.

In this respect it has been settled down the legal framework concerning the Energetic Performance of Buildings and its Methodology of Calculation. The latter triggers the energetic classification scale in accordance with the yearly consumption energy as well as the compulsoriness of possessing an Energetic Efficency Certificate for each building starting with 1st of January 2011[66].

The present regulation stipulates that the tax on buildings due by persons is established by the introduction of a quota on taxation of 0,1% at the taxable value of the building: $I_{cpf} = V_i \times 0{,}1\%$ (1)

where: I_{cpf} = tax on buildings paid by persons;

V_i = the taxable value established on the basis of the criteria and evaluation rules[67].

For corporations the tax on buildings is calculated by the introduction of a taxable quota on the inventory value of a building:

$I_{cpj} = V_i \times C_{imp}$ (2)

where: I_{cpj} = the tax on building paid by corporations

V_i = the inventory value of a building registered in the taxpayer accountancy

C_{imp} = the taxable quota which can be:

a) 0,25% - 1,5% for new buildings or for those evaluated in the last three years, or their value has been absorbed;

b) 15% - 20% for buildings that have not been evaluated in the last three years;

c) 50% - for buildings which have not been evaluated in the last five years[68].

Table no.2 Revenues from taxes raised by local budgets between 01. 01. 2006 – 01.01.2010, in accordance with the growth of the number of buildings

Year	Total number of buildings	Urban area	Rural area	Tax revenues raised/ mil. lei	Differences			
					Total	Urban area	Rural area	Tax revenue
2006	8.231.295	4.472.794	3.758.501	1.484,6	0	0	0	0
2007	8.270.549	4.491.108	3.779.441	1.991,8	39254	18314	20940	507,7
2008	8.328.663	4.519.179	3.809.484	2.288,1	58114	28071	30043	296,3
2009	8.384.972	4.574.706	3.837.236	2.413,9	56309	28527	27182	125,8

Source:Elaborated by the author, making use of data from Anuarul Statistic al României 2007– 2010.

Analyzing the above mentioned issues, one may jump to the following conclusions:

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[66] Normele metodologice de aplicare a Legii 372/2005 publicate in M.OF 695/2007

[67] Art. 251 din Codul Fiscal adoptat prin Legea 571/2003 cu modificările şi completările ulterioare publicată în M.OF 927/2003

[68] Art. 253 din Codul Fiscal, adoptat prin Legea 571/2003 cu modificările şi completările ulterioare publicată în M. OF 927/2003

- a medium sized block of flats (43-55mp habitable area, and 56-60 mp useful area) which has a thermic insulation for buildings made before 1990, consumes around 180Kwh/mp/year. Its construction triggers a 8700 kg the equivalent of CO_2, and the same flat, with a thermic insulation consumes around 100 Kwh/mp/year which triggers an emanation of noxes in the atmosphere of 4700 kg the equivalent of CO_2.
- a reduction of the energy consumption necessary to the well functioning of the 4.547.706 buildings existing at the 1st of January 2010 in the urban area, out of which 90% (4.092.936) built before 1990, would reduce at half the quantity of noxes in the atmosphere[69].
- the costs for the payment of the gigacalorie used for heating the buildings would drop to a half. On one hand it reduces the costs of the population and on the other hand it eliminates the payment made by the state for supporting the costs for heating as part of the social spending made by the state budget which in other words it can stand for the subsidy payment for pollution.
- the measure, both efficient and necessary, as far as the impact of the energy consumption on the environment is concerned, is slowly adopted, the motivation being as usual, the lack of funds.
- the taxation of the energy consumption whose target is the acquiring of a comfortable environment would accelerate the process of thermic rehabilitation of the buildings. The short and medium term effect would be the development of the investments and the creation of jobs.
- the taxation in this field would be in line with the EU regulations concerning the movement of the fiscal pressure towards the activities of consumption and those with impact on the environment while our country registers a decrease of taxation on the environment; the new stipulations of the fiscal code introduce a taxation measure on energy consumption, allowing the local administrations to exempt from paying the tax on buildings for a period of seven years all those who invest on their own in the thermic rehabilitation of the buildings[70].

If one takes into account all these aspects, the stimulatory role of taxation is compulsory in accelerating the thermic rehabilitation of the buildings, as well as the introduction of the concept “the one who pollutes pays” stipulated by the norms that regulate the environment activity in Romania.

In this respect I suggest that the present structure of the tax on buildings should contain a coefficient in accordance with one of the energetic classification group, according to the specific heat consumption per year, as it follows:

Table no.3 The energetic coefficient of correction

Type of building category within the energetic classification grid	The energetic consumption [kwh]			Coefficient of correction			
				persons		corporations	
	heat	warm water	illuminating	urban area	rural area	urban area	rural area
A up to	70	15	40	x	x	x	x
B	117	35	49	x + 1	x + 0,5	x + 0,5	x+0,25

[69] Anuarul Statistic al României 2010

[70] OG 30/2011 privind unele modificari aduse codului fiscal publicata in M. OF. 627/2011

Type of building category within the energetic classification grid	The energetic consumption [kwh]			Coefficient of correction			
				persons		corporations	
	heat	warm water	illuminating	urban area	rural area	urban area	rural area
C	173	59	59	x + 2	x + 0,6	x + 0,6	x+0,35
D	245	90	73	x + 3	x + 0,7	x + 0,7	x+0,45
E	343	132	91	x + 4	x + 0,8	x + 0,8	x+0,55
F up to	500	200	120	x + 5	x + 0,9	x + 0,9	x+0,65

x from the tab.3 represents a variable settled between certain limits by the local administrations stipulated every year in the Law of the State Budget. The relation are:

$$I_{cpf} = (V_i \text{ x } 0{,}1\%) \text{ (x + 1 up to 5)} \quad (3)$$

$$I_{cpj} = (V_i \text{ x } C_{imp}) \text{ (x + 0,5 up to 0,9)} \quad (4)$$

I consider that the influent value should be differentiated between urban and rural area but also it should vary according to the coefficients applied to the persons and corporations.

If one takes into account the fact that the tax on building in the above mentioned form respects the legal regime of the tax on property, that is it is annual and compulsory for all building proprietors, it means that the pressure of taxation established under the new conditions, should become the revenue of the local budget from the place where the goods are, according to the principle “accesorium sequitur principalum”.

Therefore, if one takes into account an average rise of the tax on building with 10% according to the tax on the environment protection applied, and an annual growth with 0.75% of the number of the buildings, it results that, at the end of 2012, it will be registered an increase of the local budgets revenues with 244,9 mil lei and the volume of the polluting noxes will increase with 0,045kg equivalent CO_2 for each Romanian inhabitant.

6. CONCLUSIONS

A thorough analysis of the present relation between the social economic development and the environment leads to the following conclusions:

1. the contemporary standard of living is greatly based on a high energetic consumption of unrenewable sources which trigger irreversible changes on the environment;
2. the walfare of the contemporary society is maintained by paying the price of diminishing up to exhaustion the chances to a superior standard of living for the next generations;
3. the authorities began to realize the necessity of an equilibrium in using the unrenewable natural sources and the economic development;
4. taxation may represent through its taxes an economic and financial vector of stimulating the protection of the environmnet;
5. taxation of the activities with impact on the environmnet, besides the first glance negative aspect, represents first of all an efficient way of increasing the budget revenues necessary financing some projects whose purpose is to combat the negative effects of these activities on the environmnet.

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CONCERNS REGARDING TO SUCCESSFUL ADOPTION OF THE EURO IN ROMANIA

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Abstract: The purpose of this paper is to survey the actual arrangements for adopting the euro currency in Romania. We analyzed the events and conditions that may influence and cause significant challenges, vulnerabilities and doubts about the euro changeover. We explore the issues related to Romania's nominal convergence in order to adopt euro in 2015. We based our approach on the Maastricht Treaty criteria, a requirement for the euro currency adoption. We comparatively study Romania's situation face to European Union Member States that did not adhere until now to ERM Exchange Rate Mechanism II and that do not benefit of special opt-outs stipulations - Czech Republic, Hungary, Poland and Bulgaria.

JEL classification: F36, F42, F33, E58

Key words: Euro adoption in Romania; Convergence; Economic and Monetary Union; advantages and disadvantages; alternatives

1. INTRODUCTION

We chose the theme of euro adoption in Romania based our approach on the importance of this subject in the contemporary economic field. The future euro adoption is a subject of great significance to Romanian, both for institutions - the National Bank of Romania, banks, companies and other types of organizations and to individuals, a large number of people.

Romania joined to European Union in 2007 and declared its intention to adopt euro currency a few years after its European Union admittance. An initial optimistic strategy to adopt euro early was replaced with an extended timeline. The starting point of our research is the provisions mentioned in the Convergence Programme 2011-2014 issued in April 2011 by the Government of Romania. According to the mentioned document, Romania maintains its commitment of adopting the euro currency in 2015, which is an important anchor in promoting the budget and structural reforms in order to boost economic flexibility. In 2011, in order to sustain the future euro adoption, was created an Interministerial Committee under the Prime Minister's coordination. This Committee consists of officials of the National Bank of Romania, the Ministry of Public Finance and of other responsible entities e.g. the National Commission of Prognosis and the National Institute of Statistics (Prime Minister's Decision no. 58/2011).

More than ten years have passed since the euro currency was adopted at the level of Economic and Monetary Union. Slowly, the initial exuberance and confidence in euro's virtues were replaced to the wavering and hesitation to believe in euro zone and its merits. A short briefly description of the euro phenomena cannot ignore the foundation of the European Monetary System EMS in 1979, accompanied by Exchange Rate Mechanism ERM, which established exchange rates among the currencies. Through its principles, European Monetary System was a precursor for the Economic and Monetary Union, developed in three stages. The first stage, 1990-1993, was marked through the free movement of capital between the Member States. The second, 1994-1998, implied the creating of the framework for the single currency creation. The third stage begun in 1 January 1999 assumed introduction of the euro as a single currency and creating the European Central Bank, in order to implement the monetary policy of the countries participating in the euro area.

In 2002 euro banknotes and coins were put into circulation in so-called Eurozone, initially consists of twelve Member States of the European Union – Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Spain and Portugal. Subsequent, on 1 January 2007 Slovenia joined to the euro area, on 1 January 2008 Cyprus and Malta, on 1 January 2009 Slovakia and on 1 January 2011 Estonia. Consequently, seventeen European Member States have adopted euro currency.

2. OBJECTIVES

We intend to analyze the condition to further monetary integration of Romania within the Economic Monetary Union, based on nominal convergence assessment. We comparatively examined the progress made in nominal convergence at the level of the European Union Member States that did not adhere until now to ERM Exchange Rate Mechanism II and that do not benefit of special opt-outs stipulations - Czech Republic, Hungary, Poland and Bulgaria, during 2007-2011. These countries benefit of a derogation to accede to Eurozone and have to accomplish the criteria of nominal convergence, called Maastricht criteria and comprised in the Treaty of European Union.

This comparative approach of nominal convergence criteria intend to establish the Romania's situation, face to the reference value of criteria according to Maastricht Treaty and face to others countries that have to adopt euro in the future.

3. METHODOLOGY

The used research methodology belongs to interpretive and critical paradigm, through literature analysis, quantitative and qualitative techniques and to constructivist approach, based on the interpreting research. The problem is presented from the general and technical features of euro towards the specific situation of Romania. The major challenge of this paper was to select the representative studies in the area, because there are innumerable, consistent and various researches on euro prevail in the entire world. Additionally, a provocative step was to distinguish among many institutions that provide quantitative data regarding the economic indicators linked to the nominal convergence, in the Eurozone context.

4. ANALYSES

Examination of the nominal convergence implies studying of the provisions contained by the Treaty on the Functioning of the European Union, which specifies at article no. 140 the requirements for achievement of a high degree of sustainable convergence by reference to the fulfillment by each Member State. The criteria of nominal convergence, called Maastricht Criteria are presented bellow, based on the provisions of the Treaty on the Functioning of the European Union and its Protocol.

Table no. 1 Nominal Convergence Criteria – Economic Monetary Union

Criterion	Measurement	Explanations
Achievement of a high degree of price stability	Rate of Inflation	Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1,5 percentage points that of, at most, the three best performing Member States in terms of price stability.
Sustainability of the government financial position	Government Deficit to Gross Domestic Product GDP	Member State is not a subject of an European Council decision regarding to excessive deficit (government deficit to gross domestic product GDP do not exceed 3%).
	Government Debt to Gross Domestic Product	Member State is not a subject of an European Council decision regarding to excessive deficit (government debt to gross domestic product GDP do not exceed 60%).
Convergence of interest rates	Nominal Long-term Interest Rate	Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability.
Participation in the Exchange Rate mechanism of the European Monetary System	Observance of the normal fluctuation margins of the national currency	Member State has respected the normal fluctuation margins (+/-15%) provided for by the exchange-rate mechanism on the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period.

Source: Treaty on the Functioning of the European Union, Protocol no. 13 on Convergence Criteria

The mentioned criteria represent a guide for the European Union in order to establish if a state with derogation to adopt euro fulfils criteria and if its derogation have to be ended. According to article no. 140 of the Treaty on the Functioning of the European Union, at least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank shall report to the Council on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union. Last Convergence Report of Central European Bank was issued in May 2010 and concludes that compared with the situation described in the 2008 Convergence Report in many countries important challenges have come to the fore related to previously accumulated imbalances and vulnerabilities, which have led to a deep adjustment process over recent years.

Studies on the euro adoption and its functioning and principles are numerous and widespread, the specialized literature offers multiple general well-documented descriptive or much practical approaches of this subject.

Recent researches on Eurozone present the difficulties of this area in the context of the actual financial crisis. Some authors have doubts regarding to the viability of euro and express their concerns about the challenges to the Eurozone. Late study considers that uncertainty about the future of Eurozone began in early 2010 as a result of the onset of a sovereign debt crisis in Greece and subsequently, concerns spread that Ireland, Portugal, Spain and Italy also lack sustainable fiscal positions. The authors formulate tree possible scenario for the future of the Eurozone: the Eurozone breaks apart, the Eurozone survives or the Eurozone becomes more integrated (Ahearn et. all, 2012). Greece is considered the center of the crisis, that sets precedents for responding to crisis in other Eurozone countries and reveals tensions among European Union Member States about the desirability of closer integration (Nelson R.M. et all, 2011).

Studies on costs, benefits and timing of euro adoption issued by the central banks of new EU Member States show that this is a subject of great significance to banking field and to national supervision authorities. At the beginning of 2000, studies were optimistic, for example, in Hungary (Magyar Nemzeti Bank, 2002), the findings of a central bank's analysis suggested that the introduction of the euro will bring about significant net gains in growth. The mentioned analysis quantified three key benefits arising from euro area membership, in the form of gains from reduced transaction costs, expansion of foreign trade and a drop in real interest rates.

In 2006, the Governor of Central Bank of Malta (Central Bank of Malta, 2006) recognized that the New Member States have come a long way in honoring their commitments to achieve the established macroeconomic targets and implement significant structural reforms, often against heavy odds. He mentioned the difficulty of the task itself, and the economic and social costs involved, but also against the background of an unfavorable global environment.

In Romania, the Governor of the National Bank of Romania (Isărescu, 2008) declared that the Romanian authorities set as a strategic economic policy objective the fulfillment of all the requirements that would allow the adoption of the euro as the national currency in 2014. Later on this target was changed with 2015, established year to changeover. The Governor underlined it is adequate to focus not only on nominal convergence, but also on several issues pertaining to real economic convergence. That's equivalent to put in place the conditions necessary for a rapid, sound and sustainable economic growth. The authors considered that the large disparities between the performance of the Romanian economy and that of European Union countries compel us to do that.

The case of Slovak Republic was studied based on the impact on euro adoption on inflation and interest rates (Hüfner and Koske, 2008). The authors considered there will be significant the medium- to longer term effects of euro adoption, like Balassa-Samuelson and other effects related to catch-up countries, that may raise the Slovak inflation rate above the euro area level for a longer period of time, although the size of the effect is difficult to quantify.

In the same manner as our paper, previous research study described the competitive advantages among member countries and factors that stay behind the accumulated imbalances and cross-country differences (Pal, 2011). The author presented three alternative scenarios of euro zone's future (according to Annunziata and Thorsten (2010)). The first scenario is called the "Quantum Leap" and has a 20% probability of its occurrence. This scenario implies significant structural reforms this should be in the direction of guaranteeing much greater and credible coordination of fiscal policies. Given the more restrictive criteria, a delay in EURO adoption of Romania became highly probable under this scenario. The second scenario is the most pessimistic one and implies the "Disintegration" with 15% probability of occurrence. In this scenario, clearly there is no place to join for Romania. In this scenario, the euro zone might break apart and this might happen in different ways. One possibility is that one of the countries with the weakest fiscal position and poorest competitiveness might decide to leave the euro zone in order to gain some more flexibility by reacquiring its own currency. The third Scenario implies mainly "Cosmetic Surgery "and it has the highest probability to happen (65% probability). In this most plausible scenario Romania might join and be an active partner of undergoing structural changes and continuous improvement (Pal, 2011).

Another study based on the same objectives like our paper (Mărginean and Orăștean, 2010) presented an overview of the situation and analyzed the economic performance of the twelve New Member States of European Union based on the Maastricht Treaty criteria. The authors launched an important question regarding the necessity to reshape the Euro area entry rules. Their findings suggested that the Maastricht Treaty criteria are too far for many countries outside the Eurozone.

Some authors (Drăgan and Pascariu, 2008) studied Romania's real convergence between 1999-2008 and the regional disparities in the context of European convergence, inclusively between Beta and Sigma. They put forward two logical questions: the first, if the integration in the Economic and Monetary Union is a real and sustainable convergence or only desirable and the second, whether is enough the observance of nominal criteria in the previous period, before euro changeover or especially after the euro adoption. The real convergence was a subject also to another author (Stoica, 2008), that underline that Romania should think at real convergence, not at the nominal one, to conscience the dangers of entering the euro area without the real convergence. Stănculescu (Stănculescu, 2010) considered that in Romania, 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, and general population. The implications of euro adoption over the monetary policy were studied in the terms of the supplementary constraints at the level of the monetary policy in Romania, in the context of imminent euro adoption (Tănasie, 2010). The author presented her doubts about soon euro accession, based on the necessity to first ensure convergence and its sustainability.

Another author (Sandu, 2009) considered that the success of euro adoption depends on the mobilization of political and social forces towards continuing the reforms necessary both to achieve nominal convergence criteria and increase the competitiveness of the Romanian economy. She invoked international financial crisis that should not be neglected, since it makes the task of adopting the euro by Romania more difficult.

A consistent literature in the field from latest years points to the technical conditions to adopt euro. Besides these approaches, it is important to study the citizens' attitude toward the euro.

Some conclusions show that most individuals nonetheless have an opinion on the introduction of the euro (Allam and Goerres, 2008). This might be explained by the fact that the currency, the money, the cash belong to our everyday life. It is familiar to us, and changing the currency needs practical adaptation from everyone. The authors analyzed why citizens in the new EU member states in Central and Eastern Europe hold different attitudes toward the euro. They tested three main perspectives in a quantitative survey analysis of Eurobarometer data: (a) the economic perspective where the individual forms an opinion based on economic evaluations; (b) the political perspective where the individual reacts to political dynamics in order to arrive at an attitude; (c) the historical-ideational perspective where individuals perceive the currency to be part of their identity. Conclusions of their study suggest that public opinion on the euro is in large part a function of four factors: the success of the economic transition; support for the euro draws on historical idiosyncrasies because the relative number of casualties in World War II has one of the strongest impacts on the formation of public opinion on the euro; support for the euro is influenced by political circumstances, especially the individual's satisfaction with democracy.

4.1 CRITICAL

THE PURPOSE OF THIS SECTION IS TO EXAMINE THE STATE OF NOMINAL CONVERGENCE BETWEEN ROMANIA AND THE OTHERS EUROPEAN UNION MEMBER STATES THAT DID NOT ADHERE UNTIL NOW TO ERM EXCHANGE RATE MECHANISM II AND THAT DO NOT BENEFIT OF SPECIAL OPT-OUTS STIPULATIONS - CZECH REPUBLIC, HUNGARY, POLAND AND BULGARIA. THESE COUNTRIES ESTABLISHED INITIAL APPOINTED TERM TO ADOPT EURO AROUND 2012, THEN 2015, BUT WITHOUT ASSUME OBVIOUS OBLIGATIONS.

TABLE NO. 2 INDICATOR OF NOMINAL CONVERGENCE OF NON-EMU COUNTRIES, 2007-2011

Criterion	Indicator	Year	Reference Value	Romania	Czech Republic	Hungary	Poland	Bulgaria
Price stability	HICP Inflation Rate	2007	*2,83*	4,90	3,00	7,90	2,60	7,60
		2008	*4,06*	7,90	6,30	6,00	4,20	12,00
		2009	*0,57*	5,60	0,60	4,00	4,00	2,50
		2010	*0,80*	6,10	1,20	4,70	2,70	3,00
		2011	*3,76*	5,80	2,10	3,90	3,90	3,40
Government Budgetary Position – Government deficit	Ratio of Government Deficit to GDP	2007	*-3%*	-2,90%	-0,70%	-5,20%	-1,90%	1,20%
		2008	*-3%*	-5,70%	-2,20%	-3,70%	-3,70%	1,70%
		2009	*-3%*	-9,00%	-5,80%	-4,60%	-7,30%	-4,30%
		2010	*-3%*	-6,90%	-4,80%	-4,20%	-7,80%	-3,10%
Government Budgetary Position – Government debt	Ratio of Government Debt to GDP	2007	*60%*	12,80%	27,90%	67,00%	45,00%	17,20%
		2008	*60%*	13,40%	28,70%	72,90%	47,10%	13,70%
		2009	*60%*	23,60%	34,40%	79,70%	50,90%	14,60%
		2010	*60%*	31,00%	37,60%	81,30%	54,90%	16,30%
Interest Rates	Long term interest-rates	2007	*6,38*	7,13	4,53	6,74	5,40	4,53
		2008	*6,23*	7,69	4,63	8,23	6,07	5,37
		2009	*6,46*	9,69	4,83	9,12	6,12	7,21
		2010	*8,64*	7,33	3,88	7,28	5,78	6,00
		2011	*5,83*	7,24	3,70	7,63	5,95	5,35
Assuming Exchange Rate Mechanism II	ERM II	2011	-	No	No	No	No	No

Source: Author's Calculus based on primary data issued by European Commission EUROSTAT, European Central Bank 2007-2012

Regarding the price stability criterion, only three examined countries fulfill the requirements – Poland in 2007 and Czech Republic and Bulgaria in 2011. The others country exceed the limit of the HICP Inflation Rate established in the Maastricht Treaty and reasons for this situation depend in last years on substantial worsening of the macroeconomic conditions and economic slowdown. Referring to the government budgetary position, we observe that the situation of the majority of the countries drastic deteriorated since 2009. All analyzed countries record government deficit above the limit for excessive deficit and are the subjects of excessive deficit procedures against them in 2010 and have to apply recommendations for the deficit adjustment. Such behavior could be explained through the erosion of the countries' stability and the need to apply the fiscal consolidation measures in terms of both revenues and expenditures. Regarding the government debt, only Hungary does not fulfill the reference value of the indicator, but the remains countries deteriorated their situation compared with previous years. Relating to interest rates, only two states achieved in 2011 the criterion – Czech Republic and Bulgaria, state based on the financial crisis manifestations and worsening of the perception on the risk. The last analyzed criteria regarding to the participation in the Exchange Rate Mechanism II, show the national options to still not participate in the Exchange Rate Mechanism II, an anteroom of Eurozone. Current period, described by the increased volatility of the currencies could generate extensive tensions about the limit of margins (+/-15%) of the interval of the national currency's fluctuation.

5. CONCLUSIONS

From the reviewer of the nominal convergence of mentioned states, we conclude that no one do not fulfill the nominal convergence criteria during 2007-2011. We remark countries that lonely achieve some criteria in few years, but looking back over entire period, the analyzed countries do not fulfill the complete series of the convergence criteria. Treaty on the Functioning of the European Union mentions the requirements for achievement of a high degree of sustainable convergence. And the sustainable convergence does not mean the convergence criteria touched at one given moment. To reach a satisfactory level of sustainable convergence, the criteria have to be fulfilled on a long term, not accidental. Realistically (or not) and enforced aim to adopt euro still remains an intricate target for the mentioned Central and Eastern European Countries. They continue to be an unattractive area for foreign investors, with uncompetitive economies, benefited to national currencies depreciated significantly against euro.

Presume that a Member State that benefit of derogation to adopt euro fulfils the criteria of convergence and expressed its option to adopt euro in a specified term, achieves the criteria, then European Council abrogates the derogation and irrevocable fixes the exchange rate between euro and currency of that state. From this moment, euro becomes the legal tender in mentioned state. Since today, adoption of euro was an irrevocable process.

The further research in the field will focus on examining of real convergence of the studied countries, in terms of extensive optimal currency area - GDP per capita, trade integration, labor market flexibility, financial sector integration and why not, on revocability process of euro adoption, based on recommendations to accomplish Maastricht criteria by the Member State whose currency is the euro.

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ECONOMIC IMPACTS OF TOURISM: THE EVIDENCE OF MACEDONIA

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Abstract: Due to variety of positive impacts, each country is interested in developing tourism. This paper disentangles the economic impacts of tourism industry in Macedonia and makes an attempt to assess the contribution to the economic development. So, some commonly applied economic parameters are addressed. Moreover, different types of analysis are performed, based on available sources of secondary data supplemented by descriptive statistics. The data set spreads overa twenty year horizon, covering the period from 1991 to 2010. Finally, the research underscores the necessity for continuous analysis of tourism economic impacts as an important consideration for creating sustainable development strategy.

JEL classification: O12, O5.

Key words: tourism; economic impacts; economic development; tourism policy; Macedonia

1. INTRODUCTION

Tourism generates various economic effects, which affect positively on the overall economy of the country. In one hand, it may have variety of microeconomic influences, like assisting in quality improvement of the employees in theindustry, benefiting fromthe scale economies and developing new facilities according to the internationalstandards for tourism demand and supply. Regarding the macroeconomic effects, the tourism is seen as a mean for enhancing the foreign export, generating foreign currency earnings, new employmentopportunities, contributing to foreign debt repayment, increasing national income, generating neweconomic sources etc. Moreover, everyone identifies tourism as a source of economic growth and development, promoting global community andinternational understanding and peace, providing tourismfacilities to local people, improving living standards, stimulating localcommerce and industry, reinforcing the preservation of heritage andtradition etc[71].

Tourism economic impacts are, therefore, an important consideration in economic development, as well as in state, regional and community planning. In the same line, it is necessary to implement a document for tourism development, since itrepresents strong mechanism and a tool for creating general policy of the overall economicdevelopment[72]. Additionally, defining the development priorities as a basic element of the developmentstrategy is the biggest obstacle to each country[73]. In this

[71] Goeldner, C.R., Ritchie, J.R.B., McIntosh, R., W.,Tourism: Principles,Practices, Philosophies. John Wiley & Sons, 2000, p. 33-34.
[72]More details in: Williams andShaw (1991) andFrechtling (2001).
[73]More details in: Gunn (1993) and Hall (2005).

respect, in 2009, Macedonia adopted the National Strategy on Tourism Development 2009-2013, which was prepared with a main vision: by 2013 Macedonia to become famous travel and tourism destination in Europe based on cultural and natural heritage[74]. Such concept, imposes the necessity of introducing new economic policy, whereas, tourism shall be treated as integral part of the entire economy.

Yet, the forecasts regarding the tourism development in Macedonia are in favor[75]. By 2021 is expected that the direct contribution of tourism to the national gross domestic product (GDP) will reach to 1.6 % thus bringing revenue of EUR 170 million according to the constant 2011 prices; the total contribution of tourism to the GDP will rise to 6.0%; the visitor exports are expected to generate EUR 76 million (5.1% of total exports); and the investment in tourism is projected to reach the level of EUR 76 million representing 2.8% of total investment[76].

2. OBJECTIVES

The issue referringthe economic impacts of tourism and its effects on country's economic development is highly explored. Namely, numerous researchers have been involved and a wide variety oftechniques have been applied in quantifying tourism economic effects. Studies vary extensively in quality and accuracy, but mostly address the economic impact analysis[77]. In this respect, theeconomic impact analysis traces the flows of spending associated with tourism activity in a region in order toidentify changes in sales, tax revenues, income, and jobs due to tourism activity. The principal methods being applied are visitor spending surveys, analysis of secondary data,economic base models, input-output models and multipliers[78].

The main objective of this paper is to point out the need for continuous analysis of tourism economic impacts as an important consideration to all tourism key-actors responsible for creating economic development strategies in Macedonia. Moreover, the main conclusions should initiate urgent need for undertaking serious measures for enhancing tourism development in Macedonia.

3. METHODOLOGY

The paper is reach on different types of analysis mostly based on available sources of secondary data. Generally, comparable quantities are analysed with descriptive statistics on economic parameters for theGDP, employment in tourism and the net flows of tourism services by analyzing the balance of payments. The data set applied in this study is spread over a twenty year horizoncovering the period from 1991 to 2010. In order to gain more interesting and accurate outcomes, the main time series is

[74]Government of the Republic of Macedonia, National Strategy on Tourism Development 2009-2013,Skopje, 2009, p. 3.

[75]Petrevska, B., Planning and forecasting tourism demand in Macedonia, International Conference "Contemporary Trends in Tourism and Hospitality, 2011 - Via Danube, the Main Street of Europe", 2011, pp. 169-177.

[76] WTTC, Travel & Tourism Economic Impact - Macedonia 2011, 2011, p. 3.

[77]More details in: Crompton, (1993); Lundberg *et al*. (1995); Huybers, (2007); Babu *et al*. (2008); Ramos and Jimènez (2008); Stabler *et al*. (2010).

[78]Frechtling, D. C., Assessing the economic impacts of travel and tourism - Introduction to traveleconomic impact estimation, in: Ritchie, J. R. B., Goeldner, C. R. (Eds). Travel, Tourism and Hospitality Research, John Wiley and Sons, 1994, p. 119.

divided in two sub-periods: 1991-2000 as a period just after the independence of Macedonia and 2001-2010 as a period extensive enough to observe the first tourism outcomes.

4. ANALYSES

During the research, several obstacles regarding the official statistical data representing tourism industry in Macedonia occurred. Namely, all applied statistical data refer only to the hotels and restaurants in Macedonia, thus being a crucial limiting factor for more in-depth analyses. In this respect, it should be noted that the findings that discuss the number of employees in tourism industry, do not address the employees in tourist agencies, tour-operators and other tourism mediators. More precisely, it is very often the case that the term tourism in Macedonia is equal to the term hotelindustry, which results into "neglecting various, even more significant effectscompared to those produced within the hotel industry"[79].Additionally, undertaken analyses refer only to the direct tourism effects, meaning that the indirect ones are not addressed in this research.

4.1 THE OVERALL ECONOMIC IMPACT OF TOURISM

The starting point in the analysis of economic importance of tourism is the assessment of tourism contribution to the overall economic activity. In this respect the Table 1 presents the GDP created in tourism in Macedonia during the sample period 1991-2010.

The first sub-interval addresses the first decade which covers the independence period. It is noticeable that the GDP created in tourism within this period decreased in six out of ten years, which might be explained as a post-independence period. The 1996 performed the best results and together with 2003 are the highest peaks, approximately 0.2% above the average tourism contribution to the economy in the sample period. As presented in Table 1, during the sub-period 1991-2000, the average annual growth is 0.6% and 1.5% as tourism contribution to the GDP. Despite the fact that the standard deviation for this sub-period (10.9%) is slightly higher compared to 8.4% in the second sub-period, the general conclusion is the absence of tourism contribution to the economy in the post-independence years.

Table no. 1 GDP of tourism in Macedonia, 1991-2010

Year	Annual growth (%)	% of GDP	Year	Annual growth (%)	% of GDP
1991	7.4	1.7	2001	-4.5	1.5
1992	-8.9	1.6	2002	16.6	1.7
1993	-2.7	1.5	2003	9.6	1.8
1994	-8.4	1.4	2004	-1.7	1.7
1995	-12.6	1.3	2005	4.8	1.7
1996	4.1	1.8	2006	1.5	1.6
1997	-3.6	1.4	2007	8.5	1.7
1998	7.3	1.4	2008	5.9	1.7
1999	24.7	1.7	2009	-8.6	1.6
2000	-1.3	1.5	2010	-9.2	1.4
1991-2000	0.6	1.5	2001-2010	2.3	1.6
StD: 10.9%			StD: 8.4 %		

[79]Sinclair, T. M., Stabler, M., The Economics of Tourism, Routledge, 1997, p. 36.

Source: Authors' own calculations based on: State Statistical Office, Statistical Yearbook of the Republic of Macedonia, Skopje, various years; National Bank of the Republic of Macedonia, Quarterly Reports, Skopje, various years.

The second sub-interval 2001-2010, generally performed growth, which was yet, very volatile. The negative growth rate in 2001 and 2004is partially due to the war conflicts in Macedonia and the region. For example, the extreme fall of tourism activity in 2000, can be interpreted as a consequence of the Kosovo war, bomb attacks on Serbia and refugee crisis in 1999. Such conclusion throws a shade on unexpected extremely high growth of tourism sector in 2003 (when actually all these negative shocks still had an influence), which can be elaborated as an outcome of abstinence of domestic population for travelling abroad i.e. an increase in domestic tourism demand. Further on, a fall of the GDP is noted in 2004, which can be provoked by increased interest for travel abroad, caused by the recovered economic activity and the rising consumer lending. In the rest of the analyzed sub-period, the tourism sector shows a slight growth with uneven intensity. The second analyzed sub-interval contributed much more to the economic development of Macedonia. Namely, the average annual growth is 2.3% which is approximately 4 times higher than the average of the first analyzed sub-period.

During the sample period 1991-2010 the tourism, in average, generated 1.6% of the GDP. Compared to the world average of 3.2% in 2009[80] lead us to conclusion of very modest tourism contribution, but the impression is completely opposite when making comparison with the average for Central and Eastern Europe (CEE) of 1.6%[81].

4.2EMPLOYEES IN TOURISM

The second step in the attempt to assess the economic influence of tourism over the Macedonian economy is analysis in the line of investigating whether tourism development can contribute to job creation. Once again, the lack of substantial statistical data was an obstacle and a crucial limiting factor for more in-depth analysis.

Table no. 2 Employees in tourism industry in Macedonia, 1991-2010

Year	Employ ees	Annual growth (%)	% total labor	Year	Employ ees	Annual growth (%)	% total labor
1991	12 764	-	2.7	2001	10 070	-3.2	3.4
1992	13 306	4.2	3.0	2002	9 982	-0.9	3.6
1993	12 022	-10.0	2.9	2003	9 880	-1.0	3.7
1994	10 611	-12.0	2.7	2004	12 672	28.3	3.1
1995	9 946	-6.3	2.8	2005	12 892	1.7	3.1
1996	10 520	5.8	3.1	2006	13 040	1.1	3.0
1997	9 903	-5.9	3.1	2007	13 040	0.0	3.0
1998	9 758	-1.5	3.1	2008	13 265	1.7	3.1
1999	9 998	2.5	3.2	2009	13 668	3.0	3.2
2000	10 403	4.1	3.4	2010	13 371	-2.2	3.1
1991-2000	10 923	-1.9	3.0	2001-2010	12 188	2.9	3.2
StD: 6.7 %				StD: 9.1 %			

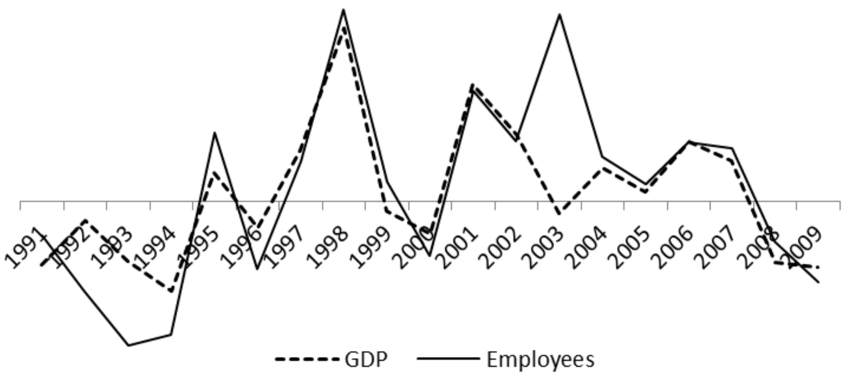
[80] WTTC, Travel & Tourism Economic Impact, Executive Summary 2009, 2009, p. 4.

[81] WTTC, Travel & Tourism Economic Impact -Central and Eastern Europe 2009, 2009, p. 5.

Source: Authors' own calculation based on the State Statistical Office, Statistical Yearbook of the Republic of Macedonia, Skopje, various years.

The Table 2 represents data regarding annual growth of employees in tourism in Macedonia and their percentage in total labor observed in two sub-intervals. During the first sub-interval, the average number of employees is 10 923, while for the second sub-interval is 12 188, which is very similar and close. This conclusion is confirmed by the standard deviation being 6.7% and 9.1%, once again pointing to the similarities in the movement of time series in the subsequent sub-intervals.

Completely opposite finding arise when comparing annual growth rate, being minus 1.9% and 2.9%. However, during both sub-periods, the percentage of tourism employees to the total workforce stayed almost unchanged (3% and 3.2% respectfully) which may be interpreted as constant relationship. However, the official data regarding the employment should be analysed with caution since the extremely high rates of growth of tourism employees in 2004 are in close correlation with the official recording system. The highest pick can be seen in the Figure 1 which presents the annual growth of GDP and employees in tourism.Moreover, due to more intensive growth, the participation of tourism employees in the total workforce increased from 2.7% in 1991 to 3.1% in 2010[82].



Source: Authors' own calculation

Figure no. 1Annual growth of GDP and employment in tourism, 1991-2010

The average percentage of tourism employment in total labor during the sample period1991-2010 is 3.1%. Although this result might seem moderate, it should be pointed out that the tourism in Macedonia has a higher influence on the entire employment in comparison to the wider region. Namely, the national average is more than twice bigger than the average of the CEE being 1.4% in 2009[83]. Once again, it is confirmed that the tourism development in Macedonia can create new job positions, and consequently contribute to curbing the unemployment rate.

4.3TOURISM EFFECTS ON THE BALANCE OF PAYMENTS

[82]Petrevska, B., Tourism in the global development strategy of Macedonia: Economic perspective. UTMS Journal of Economics, 2(1), 2010, p. 106.

[83] WTTC, Travel & Tourism Economic Impact -Central and Eastern Europe 2009, 2009, p. 5.

The final step regarding the attempts for quantifying the importance of tourism for the economic activity in Macedonia refers to the balance of payments, or more precisely, of net inflows of tourism services.From the Table 3 it is noticeable that the tourism net inflows in the first sub-period had a declining trend, as a result to war for independence in the neighboring countries of the former Yugoslavia. Some stabilization and increased tourism inflows were registered only in 1999 and 2000. Despite that, the average net inflows for this interval are minus EUR 1.6 million which clearly points out that Macedonia was not oriented towards incoming tourism. In 2001, Macedonia was faced with a war conflict with negative influence in 2002 as well. If we exclude these years, the second sub-interval is characterized with permanent increase of net tourism inflows.

To support the positive results and increase of tourism inflows, we may point to 2009 when they represented 26% of total inflows of services and 8% of exports of goods. In the same time, in 2009, the tourism inflows were 20% higher than the foreign direct investments in Macedonia. Within the framework of services, tourism inflows were the second biggest item (just a little bit lower compared to the inflows of transport services), which is 1.3 times higher than the inflows of business services and 2.4 times larger than communication services inflows. When calculated on net-basis, the tourism inflows are by far the most important item in the sub-balance of services[84].The calculated standard deviation for both sub-periods is EUR 8.2 million and EUR 33 million net tourism inflows.

Table no. 3 Balance of payments - Tourism services (mil. EUR), 1991-2010

Year	Inflows	Outflows	Net	Year	Inflows	Outflows	Net
1991	N/A	N/A	N/A	2001	29.0	43.0	-14.0
1992	N/A	N/A	N/A	2002	41.4	47.3	-5.8
1993	11.1	11.1	0	2003	49.9	42.3	7.6
1994	24.1	18.3	5.8	2004	57.9	43.9	14.0
1995	14.3	20.0	-5.7	2005	72.3	49.9	22.4
1996	16.6	20.2	-3.6	2006	102.4	56.2	46.3
1997	13.5	24.1	-10.6	2007	134.9	73.9	61.0
1998	15.0	28.4	-13.4	2008	155.2	92.4	62.7
1999	37.4	30.2	7.2	2009	120.4	56.9	63.6
2000	41.2	37.2	4.0	2010	149.6	69.9	79.7
1991-2000	17.3	19.0	-1.6	2001-2010	91.3	57.6	33.8
StD: 8.2				StD: 33.0			

Source: Authors' own calculation based on National Bank of Macedonia, Various publications.

Despite the fact that in the past years the tourism inflows were more than 10 times higher compared to the beginning years of the sample period, yet, the importance of tourism in the balance of payments in Macedonia is much reduced by the tourism outflows. So, within the second sub-period, the outflows increased approximately 3 times in comparison to the first sub-period. In this respect, Table 3 represents that in the first half of 2000s, the tourism inflows are almost identical with the outflows. Hence, for some significant net foreign exchange effect of tourism can be discussed only in the last years of 2000s as a result to the more representative inflows of foreign tourists.

[84]Petrevska, B., Importance of tourism in the economy of Macedonia,ProceedingsMIT University - Skopje, 1(1), Skopje, 2010, p. 256.

More precisely, as of 2006, the tourism inflows in Macedonia gain in importance, when they finally exceeded EUR 100 million. Consequently, in 2010, they were approximately the same amount as in 2008, meaning that the same level was reached as before the global financial crisis. On the other hand, it is worth mentioning that the average annual net tourism inflows are EUR 33.8 million, meaning that tourism in Macedonia finally started to note first significant results.

5. Conclusions

This study emphasized that tourism contribution within theeconomic development in Macedonia is important principally when compared to the average figures of tourism trends in the CEE. Namely, the economic effects are with considerable impact firstly measured by the participation in creating the GDP (1.6%), and particularly in generating new jobs (3.1%). However, the additional outcomes of the analysis referring the effects on the balance of payments are very modest pointing to the necessity of undertaking serious measures for enhancing international tourist arrivals.Besides, the analyses of both sub-intervals within the sample period indicate that tourism in Macedonia fully recovered from the independence period when only modest results were performed.

The findings point to the note that Macedonia is short on global concept for tourism development. If one wants to apply positive tourism impacts on the economy, than as an important consideration for economic development must be introduced the process of state, regional and community planning. More precisely, Macedonia must be reach on developmental policy for supplementary sectors necessary for tourism follow-up development. Herein, tourism in Macedonia should be observed in broad, macroeconomic frames as specific market segment whose dimensions and economic content comprehensively may be interpreted within the quantity and structure of tourism expenditure. That is possible only by creating analytical frame for identifying all tourism impacts.

Due to variety of obstacles when ensuring all-inclusive and reliable statistical data addressing the tourism industry, the objective assessment of tourism influence on the economic development in Macedonia is very difficult, almost infeasible.

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THE NEW PERSPECTIVES ON THE TOBIN TAX. COULD IT PROVIDE ANY SUPPORT FOR THE EURO-AREA?[85]

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Abstract: This paper aims to present a new approach of the Tobin tax concept under the circumstances of the current economic and financial crisis in the Euro-Area, raising new questions concerning its applicability and potential support in preventing speculative foreign exchange transactions.

JEL classification: G01, G15, G18

1. INTRODUCTION. THE THEORETICAL BASIS OF THE TOBIN TAX

The concept we commonly use under the name of „The Tobin Tax” has been first advanced by the late Yale professor and Nobel laureate economist James Tobin (1978). It makes reference to a tax aiming to reduce disruptive speculation on foreign exchange markets by raising the cost of engaging in this type of transactions. Based on previous literature and concepts - the Tobin tax develops an earlier proposal made by Keynes (1936) in the book, The General Theory of Employment, Interest, and Money. Keynes envisaged the application of a small transactioning tax on all stock exchange transactions aiming to diminish instability of stock markets. This idea emerged on the background of the 1929 crisis caused by the stock market crash and the substantial negative consequences. Lacking formalism, strong regulation and taxation, the Wall Street seems to have been the source for both early 1929 and actual crisis. As de Grawe states - the Tobin-tax has become the most popular proposal for controlling capital movements as it discourages short-term capital movements (usually considered to be destabilizing by the proponents of the tax) but keeps longterm capital flows relatively unaffected. (deGrawe 2000)

The applicability of the Tobin tax as it has been initially created by its author, aims all spot transactions on the foreign exchange market and it aims a short term effect as it has to be financed within shorter periods, and different category transactions such as trade and long-term capital investments should be affected in a negligible manner. The envisaged level ranges from 0,1% to 1%, with a 0,2% to 2% tax cost for each exchange and a 48% to 480% per year if transacted every business day, 10% to 100% per week and 2,4% to 24% every day. The Frankel (1996) approach and understanding of the Tobin tax points out the fact that it penalizes short-term investments more the shorter the horizon. One of the key issues in making this

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instrument efficient is establishing an appropriate rate of taxation, also given the evolutions of the financial market during the period of time from the settlement of the concept. The increasing trading volume in derivate and new derivative instruments, and the application of the Tobin tax in a limited manner to spot transactions will again determine a reorientation from traditional spot transactions to derivative instruments. Goodhart (1996) and Bird,Rajan (2000) point out that also futures, swaps and options should also make subject for taxation as they represent alternative ways through which a speculator cango long or short of a currency without going through the spot market. The Eichengreen, Tobin and Wyplosz (1995) paper, perhaps the most cited work when analyzing the Tobin tax, supports Tobin's arguments for "putting grains of sand in the wheels of financial markets", and for the fact that this type of measure could present itself with welfare implications for those cases when these markets determine shocks on labor and commodity markets. The central aim of the tax is to discourage speculative short-term attacks and excessive volatility as shocks manifestation, and according to these authors it represents the second-best alternative on the foreign exchange market horizon.

As main hypothesis for the settlement of the Tobin tax, speculation had to be qualified in terms of influence and positive or negative phenomena. Argumentations around the negative or positive effects of a speculative environment range from Keynes (1936), to Milton Friedman (1953) and Dornbusch and Frankel (1987). Keynes (1936) describes the speculative behavior as a "beauty contest". The goal of the speculators is not to estimate the intrinsic market value but to beat the market – or how Keynes would have said – to '*anticipate what average opinion expects the average opinion to be' and to 'guess better than the crowd how the crowd will behave'*. The equilibrium role of speculation has been invoked and also its contribution towards determining a fundamental value of the traded titles and towards driving the market down to its warranted price. Even though, the key element seems to been an accurate estimate of the equilibrium price by the speculators, which is not always a straight forward one. The classical logical argumentation falls in the area of a fall whenever the price is above the equilibrium and vice versa. In case the equilibrium does not exist or cannot be detected directly by the market participants, it might be rational to assume that the price will move up further. In fact, this precisely what has caused the recent economic and financial crisis – the speculative bubble, also as a proof of the fact that usually, short-term oriented speculators perform better compared to market participants who base their buying-selling decisions on fundamental data such as the assumption of a properly estimated equilibrium price. Thus, beyond anything else, this type of speculation seems to be the one causing real destabilization and disequilibrium on the international financial market, and this is just the short-term perspective. The long-term assessment may prove speculation as stabilizing on a larger scale of the international foreign exchange market. Under these circumstances of speculation, while it does not require the market participant to evaluate the fundamental of the exchange rate, the Tobin tax should work as automatic detection mechanism for the equilibrium price by discouraging short term speculation, and thus, becoming superior to other financial market limitation instruments (Menkhoff and Michaelis (1995)).

2. THE NEW CRISIS PERSPECTIVE

Ever since the debut of the actual economic and financial crisis, authorities have tried to find the appropriate solutions that could diminish or further away the negative effect of this phenomenon. But what if we should first envisage the causes in order to treat? The actual application of a measure such as the Tobin tax is highly dependent on the identification of the real sources of the disequilibrium out-burst. The uncontrolled movements of the foreign exchange market have certainly been the cause of the late 2007 bursting bubble. But beyond that, different other previously manifested causes may add up. Failures of international financial markets may also be generate by panic, moral hazard and adverse selection due to asymmetric information (Haberer 2003).The financial sector, as the main source of the actual crisis has played an important role in the development, growth and convergence process in Europe, especially for the central and eastern European EU acceding countries. From this very perspective, the EU is a rather particular case, both in terms of the regulation of the financial market, and also in terms of the evolution of the crisis, its impact, required instruments and future prospects. The main features of the EU crisis, independent of the source, have been alarming debt levels/shares, and also high deficits in terms of public budget. The rather recent liberalization of capital accounts in many European countries, and specifically in the central and Eastern part of the continent, has also been a major contributor to the specificity of the crisis and to implications drawn from the financial side. Given the emerging markets, economic theory suggests that capital should flow "downhill", from relatively capital- intensive economies to relatively less capital-intensive economies, given that the marginal return on capital is expected to be larger in the latter parts of the world. (Gardó and Martin, 2010) During the last couple of years the CESEE countries were good examples of emerging market economies which imported large amounts of capital in order to finance their growth and convergence process (see Abiad, Leigh and Mody, 2007).

The table below provides data describing the foreign exchange turnover in daily averages for 2010 – the most recent reporting period, in order to settle a scale for the transactioning level, by category of instruments. The criterion employed here is a regional one meant to depict the imposing mass for the Tobin tax and estimated income results

Table no. 2. Regional FX turnover by instrument. (in billions of US dollars)

Region	Spot	Outright forwards and FX swaps	Currency	Options	Total
North America	491	423	10	42	966
Western Europe	916	1,672	29	163	2,780
Asia-Pacific	361	743	16	38	1,159
Eastern Europe	30	38	0	0	68
Latin America	21	20	1	1	42
Africa and Middle East	13	25	1	2	41
All regions	1,832	2,921	57	246	5,056
Adjustment for - cross-border double counting	342	-681	-14	-39	-1,075
Global turnover	1,490	2,240	43	207	3,981

*Source: *** BIS – TriennialCentral Bank Survey Report on global foreign exchange market activity in 2010, 2010, p.18*

The Western European area accounts for a majority in spot transactions where the levy of the financial tax could be located.

3. THE TOBIN TAX APPLICABILITY AND SUPPORT FOR THE CURRENT ISSUES OF THE EURO AREA

As a response to recent developments as a consequence of the economic and financial crisis, the Euro-area has been trying to put into place appropriate instruments meant on one side to provide a minimum financial back-up for the affected member states, and on the other side to insure the prevention of future disequilibrium. The European Financial Stability Facility (EFSF) is one of the instruments meant to safeguard stability in the Euro-area, within the EcoFin framework previously settled and in strict accordance with the aim of providing support to member states in need of financial back-up.

As part of the EFSF we encounter the following employable instruments in case of requirement from Euro-area member states: loans provided to countries in financial difficulties, intervention in the debt primary and secondary markets, based on an ECB analysis and conclusions in respect of the existence of exceptional financial market circumstances and risks to financial stability of the Euro-area, action based on a precautionary programme, finance recapitalizations of financial institutions through loans to governments. (EFSF statute)

Aiming to fulfill its supportive mission, the EFSF issues bonds or other debt instruments on the capital markets and has been backed by guarantee commitments from the euro area Member States for a total of €780 billion and has a lending capacity of €440 billion. From the credit ranking perspective, the EFSF has been assigned by Moody's and Fitch Ratings the best credit ratings -(Aaa), (AAA) and AA+ rating from Standard & Poor's.

The second support instrument - The European financial stabilization mechanism (EFSM) provides assistance to Member States where: a Member State is experiencing, or is seriously threatened with, a severe financial disturbance; the financial disturbance or threat of financial disturbance is due to events beyond the control of the Member State concerned – according to the European Commission. Up to this point, the EFSM has granted financing to Portugal and Ireland based on its two main requirements – the assessments of the states needs, and an economic and financial adjustment programme and on the Council's decision. The amount directed towards these two economies is presented in the table below.

Table no.1.Overview on EFSM funding and loan disbursements

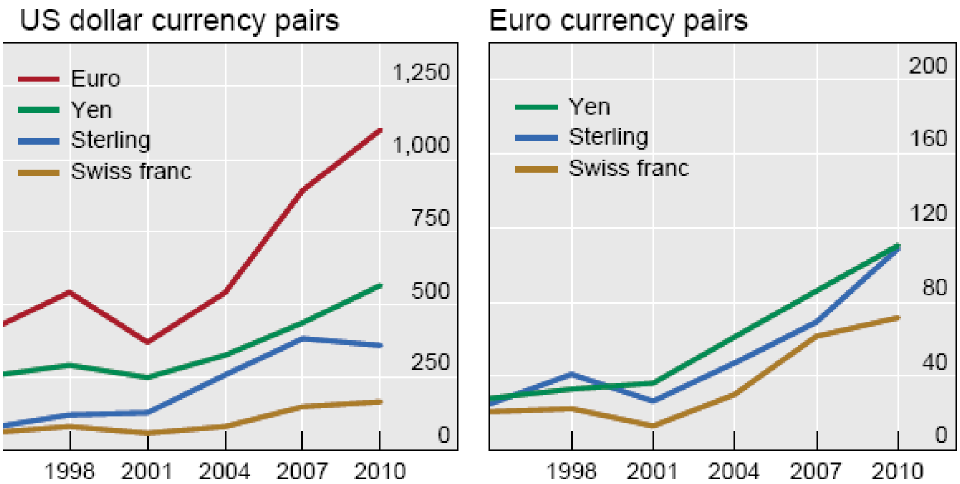
Amount	Maturity	Raised on	Loan beneficiary	Disbursement on
€ 5.0 bn	5 yr	5 Jan. 2011	Ireland	12 Jan. 2011
€ 3.4 bn	7 yr	17 March 2011	Ireland	24 March 2011
€ 4.75 bn	10 yr	24 May 2011	€ 3 bn for Ireland, € 1.75 bn for Portugal	31 May 2011
€ 4.75 bn	5 yr	25 May 2011	Portugal	1 June 2011
€ 5.0 bn	10yr	14 Sept. 2011	Portugal	21 Sept. 2011
€ 4.0 bn	15yr	22 Sept. 2011	€ 2 bn for Ireland; € 2 bn for Portugal	29 Sept. 2011
€ 1.1 bn	7yr	29 Sept. 2011	€ 0.5 bn for Ireland; € 0.6 bn for Portugal	6 Oct. 2011
€ 3.0 bn	30 yr	9 Jan. 2012	€ 1.5 bn for Ireland; € 1.5 bn for Portugal	16 Jan. 2012
€ 3.0 bn	20 yr	27 Feb. 2012	Ireland	5 March 2012

Source: The European Commission

Under these circumstances, where could it be, the place and the role of the Tobin tax? Could it act a financing instrument also? Could it raise capital at the same time with limiting the financial market instability due to speculation?

Faced with recent problems, the EU, through the voice and representation of the European Commission also charged with budgetary decisions, has included a levy on financial transactions, more commonly known as a "Tobin tax" for the period 2014 – 2020. According to estimates of the EU commission, this instrument is envisaged to support around a third of the EU budget (Uppal R., 2011).Is this perspective unanimously supported by member states? Assessments and positions are rather differentiated. Germany, Spain and France largely agree on the levy of financial transactions as being a suitable solution – as France has already stated officially through a positive vote in the national assembly. In anticipation of a delocalization of its financial activity towards more de-reglemented areas, the United Kingdom has strongly opposed the idea of the implementation of a financial levy. With a presumably constant EU budget of 1000 billion euros for the next few years, the expected contribution of the Tobin tax, as far as EU authorities see it, should raise to around 300 billion euros.

Beyond that, the budget generated income level may also be retrieved in terms of the Euro share on foreign exchange market. The most common foreign currency pairing is presented in the chart below according to 2010 transactioning. USD/EUR remained by far the dominant pair (with a 28% share), followed at some distance by USD/JPY with a slight increase to 14% of turnover. The USD/GBP pair continued to retreat from its 2004 peak to a 9% share or about the level reached in pre-euro 1998, but the EUR/GBP pair gained almost 60% in absolute terms. (BIS, 2010)



*Source: *** BIS – TriennialCentral Bank Survey Report on global foreign exchange market activity in 2010, 2010, p.15*

Figure no.1. Reported foreign exchange market turnover by currency pair

Majorly, a pro or against decision position comes from an estimative analysis of costs and benefits, but that is not all. The *medicine* role of the Tobin tax also largely depends on the state of the financial market at a certain moment in time. While normal development intervals are more likely to support free financial market and an auto-regulatory mechanism from within, crisis intervals, on the other hands, could require, also on a financial level as on regular markets, a higher level of control regulation or even restrictions. Thus, the EU perspective on the Tobin tax does not limit to the foreign exchange market control, but it also focuses on the income creation effect for the EU budget

4. CONCLUSIONS

Even if the Tobin tax may not be a universal medicine against instability and crisis episodes, at least for limited periods, it may represent a feasible instrument if politically agreed upon over a determined transactioning area and if correctly adjusted, dimensioned and appropriately implemented.

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16.	***	"BIS – *Triennial Central Bank Survey Report on global foreign exchange market activity in 2010"*, 2010, p.18

THE IMPLICATIONS OF LIQUIDITY CRISES IN THE CONTEXT OF EMERGING CAPITAL MARKET

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Abstract : This article aims to highlight the implications of liquidity crises in the context of emerging capital market. Capital markets, and especially emerging capital market appear to behave notably differently during periods of liquidity crises in comparison with periods of stability. The concept of emerging capital market itself is in obvious antithesis to the idea of financial equilibrium. This particular category of capital markets is characterized in a certain measure by profound institutional, structural and functional disequilibrium. In addition, this article aims to analyze the efficient market hypothesis in terms of liquidity. It has been empirically demonstrated that emerging capital market are rarely efficient, or in the most optimistic case weak form efficient.

JEL Classifications : G10, G12, G14, G17

Key words : liquidity, crises, disequilibrium, emerging capital market, efficiency, investors, risk

1. INTRODUCTION

The concept of liquidity is characterized by a sharp resonance in the context of emerging capital markets. This particular typology of capital markets is distinguished by certain characteristics such as : high volatility, the existence of bubbles, panic, speculation, anomalies, high-risk investment opportunities, high returns, a low level of liquidity, reduced capitalization, diversification benefits for investors in developed markets, strong correlation with developed capital markets, reduced number of transactions, insufficient development of financial instruments, exchange rate instability and many others also [Birău, 2011b]. Other areas with boundaries of development are fiscal discipline and price stability.

A detailed analysis of the history of financial crises suggested that the majority of them were triggered due to the lack of liquidity. Thus, a low level of liquidity represents a major factor of risk.

An elementary and prosaic definition of liquidity is : the probability that a particular asset can be converted into an expected amount of value within an expected amount of time.

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Goodhart proposed the following meaning of the term “The word liquidity has so many facets that is often counter-productive to use it without further and closer defnition”.

According to some sophisticated approach : Liquidity is the lifeblood of financial markets. Its adequate provision is critical for the smooth operation of an economy. Its sudden erosion in even a single market segment or in an individual instrument can stimulate disruptions that are transmitted through increasingly interdependent and interconnected financial markets worldwide. [Fernandez, 1999].

From a certain point of view, the concept of liquidity is a panacea for capital markets. Thus, an optimal level of liquidity ensures market equilibrium and even efficient market condition. If the emerging capital market is apparently stable then the financial assets price can be considered approximately “fair”. In contrast, low levels of liquidity cause severe financial imbalances. Proverbial instability of emerging capital markets is a significant risk factor for investors.

2. EMERGING CAPITAL MARKET – “A FLUID CONCEPT”

In economic theory, the concept of emerging capital market presents a great number of definitions and theoretical approaches. The term "emerging market" was first used in 1981 by Antoine W. van Agtmael, an american economist who argued that an emerging market is a new economy which is in a phase of transition to a developed market.

The concept “emerging capital market” itself seems to be fluid, because it can not be limited to a simple definition, theoretical approach or geographic area. It is simply a statement of fact… with multiple meanings and implications at all financial levels.

In economic literature, the capital market is metaphorically called "economic barometer," because it implies that it anticipated growth in the real economy. In the case of the emerging capital market, this phrase remains only an incomplete definition of an economics textbook.

In present, the notion of emergent market refers to the countries with a high volatility and who are in transition, dealing with changes in economic, political, social and demographic situation. These economies have a more robust growth to reach the level of developed countries, providing an opportunity for investors who are prepared to assume additional risk to get higher yields. Therefore, the emerging capital markets have become increasingly more attractive to investors, foreign capital injection of funds in these countries are increasingly high. [A. Mody, 2004]

The largest emerging economies are: India, China, Russia and Brazil also known under the acronym B.R.I.C, the main countries of Eastern Europe (Poland, Czech Republic, Hungary), a number of countries in Latin America (Mexico, Argentina), in the Middle East (Turkey, Egypt) or from South Africa.

According to the Financial Times Stock Exchange (F.T.S. E) evaluation criteria there are four categories of classification of national capital markets: developed markets, advanced emerging markets, secondary emerging markets and frontier emerging markets.

Advanced emerging markets category are: Brazil, Mexico, Hungary, Poland, South Africa and Taiwan, while the secondary emerging markets include countries such as China, Russia, India, Egypt, Colombia, Czech Republic, Peru, Pakistan, Turkey, Indonesia and Thailand. Frontier emerging markets include capital markets from Romania, Bulgaria, Serbia, Tunisia, Cyprus, Estonia, Macedonia, Malta, Slovakia, Slovenia, Croatia, Bangladesh, Botswana, Kenya, Nigeria, Sri Lanka or Vietnam. The inclusion of a particular emerging capital market in one of the categories above is not permanent. This situation can be changed by the fulfillment of certain criteria, but that involves achieving a significant progress.

3. LIQUID MARKET VERSUS EFFICIENT MARKET

Liquidity is a sine qua non condition for a capital market to be effective, in the sense that its capacity to ability to ability to manage financial flows is significantly higher during periods when the market is more liquid. Especially in the case of emerging capital market, maintaining an optimal level of liquidity is very important. In the literature, the concept of market efficiency is the cornerstone of modern finance and also represents a significant advance in the financial field.

In his paper "Random Walks in Stock Market Prices" published in 1965, Eugene Fama revealed that : "an efficient market is defined as a market where there are large numbers of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants". He also concludes that in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value. Practically, in an efficient market, no investment strategy can earn excess risk-adjusted average returns, or average returns greater than are warranted for its risk [Barberis and Thaler, 2003].

Efficient Markets Hypothesis suggests that since everyone has access to the same information, it is impossible to regularly beat the market, because that stock prices are efficient, reflecting everything we know as investors. In other words, a market in which prices always "fully reflect" available information is called efficient [Birău, 2011a].

In other words, Efficient Markets Hypothesis suggests that any information is available to all investors on the market, so stock prices always incorporate and reflect all relevant information. Therefore, the price of a stock should reflect the knowledge and expectations of all investors.

According to Malkiel : "A capital market is said to be efficient if it fully and correctly reflects all relevant information in determining security prices. Formally, the market is said to be efficient with respect to some information set…if security price would be unaffected by revealing that information to all participants. Moreover, efficiency with respect to an informational set …implies that it is impossible to make economic profits by trading on the basis of (that informational set)."

It is evident the apparent antagonistic contradiction between the concept of market efficiency and the emerging capital markets. It has been empirically demonstrated the fact that most of the efficient market research have focused on developed capital markets and it is considered in general that emerging capital markets are not efficient in semi-strong form or strong form. Moreover, very few capital markets are weak form efficient.

In another train of thoughts, a liquid market allows that a large volume of transactions to be conducted with minimum effect on price. At some point, it is crystallizes a very interesting connection between the concepts of efficiency and liquidity. Thus, the capital market liquidity contributes significantly to improve market efficiency. A high level of liquidity contributes substantially to enhancing the available information that is reflected in market prices.

Metaphorically speaking, the reverse of the medal is very dramatic. Destabilisation implications of the emerging capital market generated by insufficient liquidity are extremely severe. It is extremely important to distinguish between liquidity and trading volume. There is a paradox in time of financial crisis, respectively a lower liquidity level corresponds to a high volume of transactions.

Efficient market hypothesis have not reached the issue of liquidity crisis, or even the concept of liquidity itself. It assumes that investors are rational and they aim to select certain efficient financial assets to form an optimal portfolio as to achieve the highest possible returns over the long term, under the terms of a tolerable level of risk. However, in conditions of crisis, investors have a completely irrational behavior.

According to Peters : "If all information had the same impact on all investors, there would be no liquidity. When they received information, all investors would be executing the same trade, trying to get the same price."

It is significant to highlight the fact that investment decision is influenced in a large proportion by psychological and emotional factors. Human emotional complexity includes the following primary feelings: fear, panic, anxiety, envy, euphoria, greed, satisfaction, ambition or vanity. This cocktail of human emotions interferes in certain proportions in a financial investment decision making. Investors are people with many deviations from rational behavior, which often make illogical decisions. In the existing global financial perspective, the major influence of psychological factors in investment decision-making is undeniable [Birău, 2011a].

Accordingly, chances that an investor to behave rationally in liquidity crisis conditions are extremely low. In such circumstances, obtaining a fair price is no longer a priority.

4. Conclusions

Liquidity crises are a consequence of inadequate capital market functioning. In terms of emerging capital market it highlights the fact that they are characterized by severe institutional, structural and functional disequilibrium.

The vulnerability of emerging capital markets and its high degree of exposure to liquidity crises can be reduced by implementing some rigorous measures, such as : the adoption of relevant legislation, securities laws and regulations, the improvement of the trading infrastructure system, the establishment of appropriate supervisory structures, promoting transparency and fairness, discouraging short-term speculation in favor of long-term investments.

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PLATFORM SOFTWARE DEVELOPMENT, WHERE TO?*

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Abstract: Open-source phenomenon in recent years has become extremely serious touch, from a game between programmers now reached the level of a serious counter to proprietary software. The question is becoming more acute for managers to decide what type of software projects to choose for their business. Countries with less developed economies in the last 10 years have become major exporters of open source projects and well-trained workforce in this field.

JEL classification: M15, M21

Key words: open source platform; software as a service; software; virtualization

1. INTRODUCTION

Occurred over time in many formulations, such as software development, software applications development, software design, etc. all leading to the development of some software products.

Today we have to choose between several software platforms or custom software, according to the most complex needs of companies. This custom software can be developed from the beginning following a certain order from a company or can occur as a result of further customization of series software.

As software applications developers, today, we ask the question "how to achieve them". How will this market evolve in the coming years? The past 15 years have been dominated by the question of achieving software platform based on licensed or open source platforms or free ones. These free and open source platforms are based on an open-source distribution license (GNU - General Public License), which expressly stated that distribution is free of charge provided that any other development of that platform will sit under the same open source licensing.

These open-source platforms structures appear in the mid 80s and are found mostly around the GNU Project, launched as a project by Richard Stallman, a professor at MIT in 1983 and developed this project as an operating system. Among other open source platforms we distinguish: Apache License, BSD License, GNU General Public License, MIT License (MIT), Eclipse Public License and Mozilla Public License.

The occurrence of these open source platforms relies heavily on the property concept, which in many sense refers to land, money, equipment, bodies which physically

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separates, but also have the aspect of intellectual property as patents, copyrights, etc. and in the software field has specific issues.

As mentioned above, one of the precursors of the idea of open source software was Richard M. Stallman, the renowned professor of Massachusetts Institute of Technology.

He believed that the user has four rights to appoint free software. Thus, the user should have the right to run the software for any purpose, the right to study how the program works and adapt it to their needs, the right to distribute copies of the software out to others and of course to improve the program and give improvements to the community members. In this sense, the term free software refers not to its price, it is about its ownership.

However the term "free software" is not confused with the open-source software platform. The last one is often considered as an access to the source code, but this thing presents difference of interpretation clarified by The Open Source Initiative, a structure created to define precisely such licenses.

In other words, open-source platforms refer to the terms of distribution and redistribution of the software, source code integrity of the author, discrimination against persons or groups of people, license may not be specific to a particular product, the license cannot contaminate other software products[86].

On the other hand licensed software platforms or proprietary software as it is called, appeared in 1969 with the introduction of separate payment software by IBM.

Until then computer manufacturers deliver them without additional charge regarding software. The next step in the licensed software was the introduction of EULA (the final user license agreement) through which the software manufacturer separates specific terms of use, such as the number of software licenses, the number of installations, number of users, distribution possibility, etc. Among the leading providers of such software is Microsoft, Adobe, Embarcadero, Apple, etc.

Out of the question regarding choosing the type of software to develop applications depending on the type of license, the issue of outsourcing was placed over 10 years ago, especially in the development stage of the of software.

Thus, highly developed countries in the world in this business, U.S.A and Canada, have tried to find countries or geographical areas that can fill the needs. Among the countries with the largest exports of outsourcing IT include India, one of the positions hard to get, Ireland, Canada and Israel[87]. Romania increases from year to year the export of IT products.

Lately there has been a bigger concern from the highly developed countries, in the sense that they want to go to the next outsourcing segment that of research and development.

If, so far the largest U.S. companies had patented intellectual property upon the means of achieving and subcontract only the development of software, while large corporations try to not lose the technological edge in Asia or other regions in strong development phase.

[86] Steffen Evers, An Introduction To Open Source Software Development, Berlin 2000, http://user.cs.tu-berlin.de/~tron/opensource/opensource.html

[87] http://news.bbc.co.uk/2/hi/business/6279679.stm

Thus, is been discussing about a well-prepared workforce to compete globally. USA tries to replace aging population from the software research and development field, but this seems a difficult target to achieve on short-term[88].

A very convenient method for U.S.A and Canada would be outsourcing. Many corporations in the software field such as Microsoft, Adobe, Intel Corporation, Oracle Corporation, SAP, IBM, managed to build its own subsidiary in India, whose exports of software seems to increase 30% per year[89].

2. Open-Source Software Development

Developing open-source software means a production model that exploits distributed intelligence of online participants in virtual communities[90]. How to work in distributed environments, explains how and opportunities for developing countries wishing to be involved in such events.

With the shift from third to fourth generation of programming languages in the years 1970-1980 programming moves to a much higher spread to a much larger community of programmers. On this occasion are appearing more programming languages, their diversification is evident. Also the most famous and successful programming languages today are rooted in that period, C, Delphi, Pascal's successor, Java, etc.

The increase of community programmers has expanded after 1990 and on a very wide variety of users, due to the emergence of the Internet. The Internet has produced an explosion of information, digital encoded, and some of them enjoy the property multitude of users. Due to exponential growth of users volume especially after 2000, the Internet has become a huge source of commercial and financial operations producing income. Thus, in addition to the production of generic software regarding applications done until the rise of the Internet, after its appearance we face an increasing pressure on software firms, because the software products increased much in all business. This feels especially for highly developed countries, which have the necessary infrastructure to develop business leading to their development.

The appearance of programmers' communities has increase in the importance of open-source software, highlighting the programmers who are specialized in this field. These communities are economically interested not only for a social exchange but for the organizations which are based on a distributed division of labor[91].

A simple distributed division of labor is intranet which facilitates communication and work among the employees of a corporation. This allows software development within multinational corporations, even if their implementation requires work distributed by teams of programmers which are in different areas of the globe.

This is interesting, both for the community of programmers which are geographically in different locations, because they are paid to the multinational corporation level and also for the company because this will hold intellectual property rights upon programmers work.

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[88] United States Government, "The High-Tech Worker Shortage and U.S. Immigration Policy," U.S. G.P.O, Supt. Of Docs., Congressional Sales Office, 1998

[89] India software exports seen growing 32 pct in yr to March 2006 - NASSCOM - Forbes.com

[90] Oxford Review of Economic Policy (2001) 17 (2): pg 248-264

[91] Bruce Kogut, Anca Metiu - Open Source Software Development and Distributed Innovation, Oxford Review of Economic Policy, Aprilie 2001

The question asked more and more in the community of programmers is “where software development will go in the near future”, taking into account existing factors on the today market? This will lead to an intense development of open-source programmers or will develop the strengthen of a significant software market with user rights paid.

Open-source licenses have the advantage of forcing the introduction of source code into the public domain, through which various innovations developed by the community of programmers to contribute quickly to the improvement of the source code or adding new functions[92].

It also presents a great disadvantage, namely the development of open source solutions using virtual community of programmers which can lead to increased fragmentation of design applications in competing versions. Another advantage of open-source licenses is that it provides a better model of development.

On the other hand, another big advantage of open-source applications is a low cost of applications maintenance. After studies by Yourdon in 1996 only maintenance of an application may be somewhere between 50-80% of the budget allocated by the company for software.

Therefore most of the community of programmers does not deal with writing the application code, but most of them are those involved in its maintenance (debugging). Due to the large number of members of these open-source communities, time of solving various errors (debugging) is much smaller compared with the same problems in the case of paid applications.

The increasing of achieving costs of different software platforms, plus difficulties in recent years and increasingly higher labor training that made such software leads to the idea of transition to open-source platform. Meanwhile, the competition on software market has increased in recent years reaching a level where innovation and speed execution of software platforms are important.

Besides the question is if the open-source projects may have a material impact in developing countries. Thus, most people are from these in developing countries and over the time have observed that they have well-educated workforce.

However they have some technological innovation at a very small level, which determine well-educated labor force to migrate to highly developed countries. As an example in the last 20 years consists of Indian and Chinese software industry. Thus the Indian software industry increased with an annual average of over 50% around 2000.

Lately open-source projects seem to have left the fight with proprietary software as winners. Applications such as Mozilla Firefox Web browser, Web server Apache, Linux, have market shares higher than paid applications from the same category such as Internet Explorer web browser, so far being a leader, IIS web server from Microsoft, and also Windows operating systems.

Open-source projects have a high chance of success because of the involvement of e-learning and online training, these two activities conquering even the academic area. Their growth in the recent years is due to the fact that any user can download these applications at no additional cost, these being a crucial fact. Also its flexibility and customization offered by virtual communities of users is crucial.

[92] Bruce Kogut, Anca Metiu - Open Source Software Development and Distributed Innovation, Oxford Review of Economic Policy, Aprilie 2001

Most proprietary software does not provide the source code, the originally code written by the programmer, which cannot allow the user to change the way software is developed.

Another important advantage of using open-source projects using low cost or no cost, is represented by open standards that provides integration with other systems. However, there are arguments against the use or development of open source projects such as: are some voices who say that open source is of a lower quality, the fact that because of the existence of virtual communities that develop such projects, but not because of a company that can bear the responsibility of those projects, it is hard to blame someone for a bad maintenance or error and finally the fact that these open-source projects are aligned to the needs of companies and their users.

The fact that you can get addressed to a software company for any new requirements or urgent changes in application, may lead to a major slowdown of enlargement of the open source phenomenon. However, the idea of open-source programmers come to counter this idea of impossibility of new developments, with the fact that the phenomenon is based on open source virtual community of users, and through them is very possible that some of these communities to be developed before or immediately thereafter.

Also, in favor of open source projects is also the idea of hidden costs that occur almost every time in the case of proprietary software. These costs occur at every implementation because informational business processes. It is extremely difficult not to say that is impossible to create software which perfectly matches with business processes to different corporations. In this case most of the time corporations rethink their business processes depending on the proprietary software purchased.

Also in this chapter of possible disadvantages for using proprietary software fit also the different behavior of employees, which, for a change of business processes must change their attitude or work habits, to start working in an entirely different way.

We have to talk also about a term named closed sources that presents a model source code that is not released to the future users and programmers. In the future it is possible the biggest software firm from the world to change a little bit their strategies about the paid licenses.

3. CONCLUSIONS

It is difficult to consider that the struggle which is given for over 10 years between those who enjoy the benefits of open source projects and those who are followers of proprietary software, will end soon, because benefits are to be found on both sides.

Also, in recent years, major open source projects can be found increasingly more under the protection of some of the largest software corporations in the world, see Oracle, which through the acquisition of Sun company, has purchased MySQL, one of the most widely used web database systems in the world.

Not all open source phenomenon has ensured the same quality, cost and support resource, do not enjoy versions for all operating systems on the market.

It is certain that open-source phenomenon has become extremely serious in recent years, from a game between programmers reached the level of a serious counter compared to proprietary software.

If you draw the line, if we are in a position to decide what software solution to buy, is not an easy choice. At first everyone considers that the decision to purchase open-source solution is based on low costs even to zero, but the reality is usually different. To the initial cost of acquisition you can add the cost of software maintenance, which, as we mentioned above, can reach between 50% and 80% of the total cost of implementation.

Yet in the last 10 years, open-source projects have significantly increased at the level where this phenomena has become one of attention.

As a final conclusion, the term free means also no price, but it means also free as a freedom. The freedom computer users begin since from 1983 and it was proposed by Richard Stallman. All this campaigns with the freedom of computer users was considered a movement till 1998 when a part of free software community splitted and began the new campaign named open source, they touk this name not to be misunderstand with the term free software. Till today the campaign of open source software it develops day by day.

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THE SCORE MODELS FOR ANALYZING THE BANKRUPTCY RISK. SOME SPECIFIC FEATURES FOR THE CASE OF ROMANIA*

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Abstract: The paper presents some of the most relevant score functions developed worldwide, used to assess the bankruptcy risk. Among these, we mention the Altman model, developed in 1968, the model elaborated by the Central Bank of France, by Conan and Holder, or by Ohlson. Also, we present the models developed in Romania, with the specific features that such score functions have for the Romanian theory and practice. We also emphasize the limits of using the score functions in analyzing the bankruptcy risk and the difficulties of elaborating them for the case of Romania.

JEL classification: G32, G33

Key words: critical; statistical methodology; discriminant analysis; bankruptcy risk; failure; financial distress; score function.

1. INTRODUCTION

The risk of bankruptcy is the most important component of the risks an enterprise faces. It is closely related to all the categories of risks that arise in a business and its appearance causes major implications that go beyond the company and affect all the business partners.

The study of companies in financial distress is particularly important for banks, concerned about the quality of the credit portfolios they hold, for shareholders, investors, employees, customers and suppliers. Directly or indirectly, all of them will suffer losses due to the bankruptcy of the company they are in contractual relationships with.

The bankruptcy is a defining feature of the market economy. At the macroeconomic level, the failure is a normal phenomenon and has the role to make the economic system more efficient, by eliminating the companies that cannot properly adapt to the market conditions. Obviously, this positive role occurs when the number of failures does not exceed a critical level that would disrupt the economic relations and would lead to the emergence of major economic crisis.

The assessment, the analysis and the prediction of the bankruptcy risk a company is exposed to be a constant concern for managers. The determination in advance of the risk of failure allows identifying the causes and the disturbances that affect the business, the errors arising in the business management and making appropriate measures to eliminate or to reduce them.

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Predicting bankruptcy and understanding the causes of failure are based on financial reasons. The bankruptcy involves direct costs with legal fees, with wages for accountants, lawyers and bailiffs etc., but these costs are small as compared to the losses of the investors (shareholders and creditors), as the company's value decreases and it is unable to repay the debts and to pay the interest. At the same time, the bankruptcy involves indirect costs such as losses to managers, employees, state etc. Sometimes, they can reach a significant size. All these costs justify the efforts to identify the causes of bankruptcy and to predict it.

2. Objectives

The specialized literature provides a variety of tools for assessing and predicting the risk of bankruptcy. The basis for these instruments is, mainly, the statistical methods. They are especially used when studying the financial rates that reveal the financial position of a company. The large variety of tools developed and of measures that may be used could cause difficulties when selecting the appropriate models, but also some differences in the interpretation of the results obtained with their help.

Among the methods of analyzing the bankruptcy risk elaborated so far, we mention:

- the static analysis, based on the balance sheet;
- the functional analysis, based on functional balance;
- the dynamic analysis, carried out with the financing table;
- the discriminant analysis, relying on which there were created several methods of evaluation and prediction of bankruptcy.

Further on, we'll present the most relevant score functions developed with the help of the discriminant analysis, both worldwide and in Romania.

3. Analyses

The specialized economic literature, both foreign and Romanian, shows a variety of score functions, developed by researchers from a variety of countries. We'll further present the most representative score models, which were imposed in theory and practice due to the results obtained in the prediction of bankruptcy.

1) The Altman model was developed in 1968 on a sample of 66 enterprises, of which 33 healthy and 33 in financial distress. To build the model, there were tested 22 financial ratios, of which five have been kept as having a significant discriminating power.

By analyzing the companies with financial difficulties, Altman has identified five phases of a business failure:

1. appearance of initial signs of financial difficulties (slight decrease in profitability, in turnover, reduction of cash), but which are ignored by the company management;
2. a clear appearance of the financial difficulties that are not followed, however, by proper measures, hoping that they will disappear;
3. a strong degradation of the financial position, as the disturbance factors affect the entire business;
4. collapse, meaning a management failure to adopt appropriate measures to solve the situation;
5. intervention, either by recovery measures, either by declaring bankruptcy.

The score function developed by Altman in 1968 takes the following form:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + X_5 ,$$

where:

X_1 = Working capital (WC) / Total assets;

X_2 = Retained earnings / Total assets;

X_3 = Earnings before interests and taxes (EBIT) / Total assets;

X_4 = Market value equity / Total liabilities;

X_5 = Sales / Total assets.

The ranges of values of the function are:

- $Z < 1.81$ - the company is bankrupt, being in phase 4 or 5;
- $1.81 < 2.90 \leq Z$ - the company is in financial distress, meaning the phases 2 or 3;
- $Z > 2.90$ - the company may be considered economically healthy.

2) Altman, Haldeman and Narayanan built in 1977 another model, known as Zeta model with some modifications against the model in 1968. The sample of companies considered consisted of 53 bankrupt companies and 58 non-bankrupt pursued during 1969-1975. The three researchers tested 27 financial variables representing profitability, liquidity, capitalization, variability of earnings, debt and other indicators. Finally, seven financial ratios were chosen, namely:

X_1 - return on assets;

X_2 - the stability of earnings;

X_3 - debt service;

X_4 - cumulative profitability;

X_5 - liquidity;

X_6 – capitalization;

X_7 - company size.

The ZETA weighting coefficients have not been published by the authors.

3) The score function used by the **Central Bank of France** was developed based on a sample of industrial enterprises that pay income tax, with less than 500 employees. The enterprises were classified into three components: bankrupt, ordinary and vulnerable.

According to this model, a company is bankrupt when it follows a judicial procedure for bankruptcy. These companies are observed over a period of three years before bankruptcy.

The authors proposed a number of 19 ratios, covering four key areas of activity:

- the financial structure;
- the dynamic of the business;
- the profitability;
- the current management.

In some circumstances, a financial rate can have excessive values or can become incalculable (the denominator is zero). In order to preserve the quality of the results, instead of eliminating the companies with such rates, it was defined, for each rate, a range between certain limits and the value will be adjusted to one of the limits if it exceeds the default values.

The bankruptcy risk analysis model elaborated by the Central Bank of France actually includes three score functions, which are used in two stages.

a) The score function Z

To characterize the financial health of a company, the first score function is used, which was constructed by comparing the bankrupt companies against the ordinary ones. This is the function Z, which includes eight financial ratios, with the following expression:

$$Z = -1.255R_1 + 2.003R_2 - 0.824R_3 + 5.221R_4 - 0.689R_5 - 1.164R_6 + 0.706R_7 + $$
$$+1.408R_8 - 85.544.$$

The eight ratios of the function Z are:

- R_1: Financial expenses / EBITDA;
- R_2: Financing of invested capital: Long term capital / Invested capital;
- R_3: The repayment capacity: Self-financing capacity / Total liabilities;
- R_4: Gross operating margin: EBITDA / Turnover;
- R_5: The duration of supplier credit:
  $$\frac{\text{Average balance of commercial debts}}{\text{Purchases with VAT}} \times 360;$$
- R_6: The growth rate of value added $(Va_1 - Va_0) / Va_0$;
- R_7: The duration of customer credit:
  $$\frac{\text{Average balance of commercial receivables}}{\text{Sales with VAT}} \times 360;$$
- R_8: The rate of physical investment: Average value of physical investment/Va.

The highest representative rate is R1, as depending on its level the companies are split in the second phase.

The ranges of values depending on which the companies are divided are:

- $Z < -0.25$ - the enterprise is at risk, without being able to say with certainty that it is bankrupt;
- $-0.25 < Z < +0.125$ - one cannot make assessments about the state of the enterprise (uncertain state);
- $Z > 0.125$ - the company is normal, but can't be offered guarantees that it won't be ever in distress.

b) The score functions Y_1 and Y_2

This step aims analyzing the companies that have previously obtained a negative score, less than -0.25, which are likely to have a high risk of bankruptcy. These companies are divided into two categories, depending on the value of the rate Financial expenses / EBITDA. To separate the companies with a low score from those who are very close to bankruptcy, it will be used two additional scoring functions, Y1 and Y2.

The first group includes the companies with EBITDA of zero or negative and those with a ratio Financial expenses/EBITDA greater than or equal to 215%. The second group includes the enterprises whose rate Financial expenses/EBITDA is between 0 and 215%.

For the companies in the first group, it is calculated the score function Y_1, which contains seven financial ratios. The Y_1 score is calculated for a period of two years in order to capture the evolution of the financial position. The companies in this group are the most risky and have a high probability of filing for bankruptcy in the future.

For the companies in the second group, the score function Y_2 is determined based on 13 financial ratios. These companies have a weak financial position, but better than the companies in the first category.

The function created by the Central Bank of France was subsequently updated, by creating more functions, differentiated by industries: BDFI for industrial enterprises, BDFC for trade companies and BDFT for transport companies.

The BDFI score function, developed in 1995, whose formula is kept secret, is based on the financial indebtedness (importance, structure and cost of borrowing), which makes it especially attractive for bankers. The score function is based on three elements:

- the business, assessed by a letter (from A to X), depending on turnover;
- profitability and financial structure;
- short-term solvency.

The best score is set at 37 and 69 the worst.

4) Conan and Holder have developed several scoring functions, differentiated on sectors, namely the industrial sector, the wholesale sector, the transportation sector.

For the industrial enterprises, the score function is as follows:

$$Z = 0.24X_1 + 0.22X_2 + 0.16X_3 - 0.87X_4 - 0.10X_5,$$

where:

X_1 = EBITDA / Total liabilities;

X_2 = Long term capital / Total capital;

X_3 = (Cash + Receivables) / Total Assets;

X_4 = Financial expenses / Turnover;

X_5 = Wages / Value added.

According to this function, the businesses can fall into one of the following categories:

- good state, when $Z > 9$, and the probability of bankruptcy is less than 30%;
- caution, when $4 \leq Z < 9$, and the probability of failure is between 30% and 65%;
- danger, when $Z < 4$, and the probability of bankruptcy is more than 65%.

5) In 1980, **Ohlson** developed a model for analyzing the bankruptcy for listed companies that went bankrupt during the period 1970-1976. The score function takes the following form:

$$O = 6.03X_1 - 1.43X_2 + 0.08X_3 - 2.37X_4 - 1.83X_5 + 0.285X_6 - 1.72X_7 - 0.52X_8 - 1.32,$$

where:

X_1 - Total debts / Total assets;

X_2 - Current assets / Total assets;

X_3 - Current liabilities / Current assets;

X_4 - Net Profit (Np) / Total assets;

X_5 - Profit before taxes plus depreciation / Total debts;

X_6 - An indicator equal to 1 if the net profit in last two years is negative and 0 otherwise;

X_7 - An indicator equal to 1 if total liabilities exceed total assets and 0 otherwise;

$$X_8 = (Np_t - Np_{t-1}) / (|Np_t| - |Np_{t-1}|).$$

In Romania there have been also efforts to develop score functions for analyzing the risk of bankruptcy. But these attempts occurred much later in comparison with the researches carried out worldwide.

6) C. Mânecuţă and M. Nicolae developed in 1996 a score function for the analysis of the bankruptcy risk, based on 14 financial ratios, considering a sample of 59 companies from the metallurgy industry.

7) In 1998, **G. Băileşteanu** created a model for analyzing the risk of bankruptcy, based on four variables. According to the author93, the specter of bankruptcy is emphasized by the occurrence of the following states:

- the impossibility of paying the current debts;
- insufficient financial resources for repayment the medium and long-term debts;
- delays in collecting the receivables;
- lack of profit.

The financial ratios taken into account by Băileşteanu are:

- the current liquidity: $G_1 = \frac{\text{Current assets}}{\text{Current debts}}$;
- the solvency: $G_2 = \frac{\text{Net profit} + \text{Depreciation}}{\text{Long and medium term debt service}}$;

The debt service includes the installments on medium and long term loans and the interest. In this form, the ratio actually expresses the coverage of medium and long term debt service.

- the turnover of customer credit: $G_3 = \frac{\text{Sales}}{\text{Commercial receivables}}$;
- the profit rate: $G_4 = \frac{\text{Profit}}{\text{Cost}} \text{x} 100$,

and the model has the following expression:

$$B = 0.444G_1 + 0.909G_2 + 0.0526G_3 + 0.0333G_4 - 1.414.$$

The function parameters were determined based on the utility theory.

The maximum and minimum values of the function are 4 and -1.4, and the ranges of values to classify the companies are:

- $B < 0.5$ – imminent bankruptcy;
- $0.5 < B < 1.1$ - limited area;
- $1.1 < B < 2$ - intermediate zone;
- $B > 2$ - favorable area.

8) In 2002, **I. Anghel** carries out a complex study of the bankruptcy risk, creating a score function based on a sample of 276 enterprises. The proportions of companies in the sample were 60% non-bankrupt and 40% bankrupt, as they belonged to 12 industries. Anghel classified the financial ratios tested into five groups:

- turnover rates;
- rates of liquidity;
- rates of indebtedness;
- rates of return;
- other economic and financial information.

Anghel carried out a discriminant analysis of the financial ratios and finally kept four financial ratios in order to develop the score function: the return on revenue (X_1), the coverage of debts with cash-flow (X_2), the ratio of debts against the assets (X_3) and the period for payment the debts (X_4), which have been aggregated in the following score function:

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[93] G. Băileşteanu, *Diagnostic, risc şi eficienţă în afaceri*, ediţia a III-a, Ed. Mirton, Timişoara, 2005, pag. 294

$$A = 5.676 + 6.3718X_1 + 5.3932X_2 - 5.1427X_3 - 0.0105X_4.$$

Depending on the score obtained by applying this function, the companies can be classified into three groups:

- if $A < 0$ - bankruptcy / failure state;
- if $A \in [0; 2.05]$ - area of uncertainty;
- if $A > 2.05$ - non-bankruptcy state.

The development of scoring functions for the prediction and the analysis of bankruptcy for Romanian enterprises is difficult, because the bankruptcy process in Romania has different characteristics as compared with most countries where such models have been created. Thus, in Romania there is a large number of companies in financial distress, but very few against whom the legal proceedings for bankruptcy were initiated. Also, the possibility of manipulating the financial statements by the management of companies and the difficult access to sources of information hampers the development of new scoring functions.

4. CONCLUSIONS

The score methods allow an overall assessment of the risk of bankruptcy for the enterprises, based on a set of financial ratios that are affected by the degradation of the financial position. The scoring functions, being elaborated with the help of the statistics methodology, may be used for both the retrospective and the prospective analysis of the bankruptcy risk. This is possible as the degradation of the financial position usually occurs gradually over time and the evolution of the score of a company can point out its financial difficulties.

The scoring functions also allow the assessment of the bankruptcy risk by both the company managers and by the external stakeholders and in particular by the creditors. From this point of view, the scoring methods are among the few tools to evaluate the risk of bankruptcy that can be used by third parties, given their difficulty to access the information within a company.

Although used successfully for almost half a century, due to ease of implementation and the high degree of objectivity, the scoring method has some disadvantages, which limits its application in time and space. Thus, one of the limits is that is applicable only in the industry from which the sample is drawn and only as long as the economic conditions remain unchanged. The periods of economic instability affect, however, the correlations considered in determining the score function and require a regular updating of models in order to adapt them to the new economic and financial conditions.

Another limit of the research in this field is that the bankruptcy process has a legal connotation, meaning that its start more depends on lenders or banks and not on the company's financial statements. Moreover, the credit institutions may decide to continue the financial support of an enterprise with difficulties, which will prevent its bankruptcy. Under these circumstances, the losses that the investors may suffer as a result of a wrong diagnosis of the position of an enterprise can be significant and irretrievable.

Another problem is the statistical methodology used to determine the bankruptcy prediction models. Most researchers have taken into account an equal share of bankrupt and viable enterprises in the sample, while in reality the bankrupt companies have a low share in the national economy.

A multitude of other factors such as the age of companies, their size, the industry, the difficulties in assessing some assets, the measures taken to solve the problems are among the variables that influence the risk of bankruptcy and which are not taken into account by the statistical methods. However, the errors of diagnostic induced by the models can lead to erroneous classification of a non-bankrupt enterprise as being bankrupt, which may lead to cutting the relationship with the creditors. Conversely, a business in distress classified as viable can lead to major financial losses for creditors, shareholders and the state.

At the same time, the financial rates taken into account in determining the models were chosen, often, on a subjective basis, depending on the rates most frequently used in the literature and considered as the most discriminating. These rates are derived, usually of the indicators published by companies in their financial statements and do not provide an objective information, considering the risk of manipulation by the company management in order to present a more favorable financial position.

To increase the relevance of the score functions, it should be developed more score functions, by taking into account the industry and the size of companies, large or small. As well, it is required a statistical testing of a large number of financial ratios to select those who are the most discriminant for the non-bankrupt and bankrupt companies. It should be also included in the model, in addition to the financial rates, other variables that influence the risk of bankruptcy, like the size (assessed by assets, output, number of employees etc.) or subjective variables, like the quality of management, of staff etc., which creates new problems related to their assessment and their integration into the model.

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QUANTITATIVE RESEARCH ON REAL POSSIBILITIES OF (RE)DEVELOPMENT OF TOURISM IN THE RESORT MALNAŞ BĂI

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Abstract: This paper comprises two non-parametric tests used in the bivariate analysis in order to see if there are significant differences between men and women and the age group of respondents in terms of assessment of the performance of the local council on local tourism in the resort Malnaş Băi. It was also analyzed whether there are significant differences in the respondents' opinion on the importance given to the different possibilities of (re)development in the tourist resort which would have a beneficial effect on local tourism.

JEL classification: M41, M42

Key words: Mann-Whitney U test, Kruskal-Wallis test, tourism potential, quantitative marketing research, (re)development

1. INTRODUCTION

Romania's EU integration, a long and complex process, opens new perspectives for the development of Romanian tourism in many respects: the new forms of tourism, service and tourism products quality, protection of environment and optimal recovery of the entire tourism potential. Following Romania's accession to the European Union the main advantage enjoyed by Romanian tourism is tourism development through the Structural Funds. The Structural Funds provide significant opportunities of founding tourism projects. These funds can play an important role in the development of underdeveloped regions, by improved promoting of tourism.[94] The Resort Malnaş Băi represented in the 70s a tourist area of high attraction. But currently the resort lost its power but the tourist attraction once. The first question that came to us concerned that if local people were involved in (re)development of local tourism and if there are significant differences with regard to local tourism variables and representing variables of respondents. Following the quantitative marketing research it was found that among people surveyed, 86 people would involve in (re)development of tourism in the resort Malnaş Băi, and 10 respondents do not show any interest in this regard.

2. OBJECTIVES

The quantitative research was based on the following assumptions:

[94] Cruceru, R. M. - Romanian tourism adaptation to the requirements of the Single Market, PhD thesis,ASE, Bucharest, 2008, p. 87-89

H_0 = There are no differences between men and women in the assessment of activities carried out by the local council on local tourism.

H_0 = There are no differences between respondents' age and their opinion regarding the assessment of activities carried out by the local council on local tourism.

H_0 = There are no differences between men and women regarding their opinion about the importance given to the different possibilities of (re)development of local tourism.

H_0 = There are no differences between respondents' age in terms of their opinion about the importance given to the different possibilities of (re)development of local tourism.

3. METHODOLOGY

Among the sampling ways, the random sampling was chosen because it is that technique establishing the sample that means that each unit of the population studied has certain probability of being included in the sample.[95] The sampling basis necessary for probability establishment of the sample represents the established population from Malnaş Băi and the validation of the sample was done through a test of comparing differences between percentages.

The formula of the percentage difference test used is : $z_{obs} = \dfrac{|\pi - p|}{\sqrt{\dfrac{p(100-p)}{n}}}$

The marketing information was obtained through the investigation that was conducted in 2009. Although we distributed 110 questionnaires, we processed the raw data obtained from 96 questionnaires because 6 were not returned and 8 of them were not duly filled in.

4. PRIMARY MARKETING DATA ANALYSIS

4.1 MANN-WHITNEY AND KRUSKAL WALLIS ASSUMPTIONS ANALYSIS

(1). H_0 = There are no differences between men and women in the assessment of the activities carried out by the local council on local tourism.

The results obtained with SPSS system are presented below:

[95] Lefter, C. – Marketing Research. Theory and Applications, Infomarket Publishing House, Braşov, 2004. p. 132

Table no. 1. Sum of ranks obtained for the 2 groups
Ranks

	Gender	N	Mean Rank	Sum of Ranks
In your opinion the local council grants due attention to the development of the resort	Man Women Total	42 54 96	49.43 47.8	2076.00 2580.00

In this case the subsamples (Table no. 1) are of great sizes, both being higher than 30 persons (n_1 = 42 and n_2 = 54).

Table no. 2 Values corresponding to the U test
Test statistics

	In your opinion the local council grants due attention to the development of the resort
Mann-Whitney U	1095.000
Wilcoxon W	2580.000
Z	- .748
Asymp. Sig.(2 tailed)	.454

a. Grouping variable: Gender

It is noted that z_U = - 0. 748 > $z_{\alpha/2}$ = -1.96 (Table no. 2). Therefore the null hypothesis is accepted according to which we cannot guarantee a 95% probability that between men and women there is any deference in the assessment of activities carried out by the local council on local tourism.

(2). H_0 = There is no difference between respondents' age and their opinion regarding the assessment of the activities carried out by the local council on local tourism.

Table no. 3 Mean ranks in the case of the Kruskal - Wallis test
Ranks

	Age	N	Mean Rank
In your opinion the local council grants due attention to the development of the resort	18-36 years 37-55 years above 55 Total	44 41 11 96	49.27 46.00 54.73

Table no. 3 contains the size of each group at the level of the sample and the mean ranks corresponding to the groups.

The value $H = \chi^2_{calc}$ in the analysis table (Table no.4) is equal to 6.169 („Chi-Square")

Table no. 4 The calculated values in the case of Kruskal - Walis test.

Test Statistics

	In your opinion the local council grants due attention to the development of the resort
Chi Square df Asymp. Sig.	6.169 2 .046

a. Kruskall Wallis test

b. Grouping variable: Age

In this case $H = 6.169 > \chi^2_{0,05;2} = 5.991$, which means that we shall reject the null hypothesis, therefore between the three population groups there are differences in the assessment of the activities carried out by the local council.

(3). H_0 = There is no difference between men and women in their opinion about the importance given to the different possibilities of (re)development of local tourism.

Table no.5 The sum of the ranks obtained for the 2 groups

Ranks

	Gender	N	Mean Rank	Sum of Ranks
Develops the image of the resort (1).	Men Women Total	42 54 96	50.00 47.33	2100.00 2556.00
Development of the possibilities of spending leisure time (2).	Men Women Total	42 54 96	49.50 47.72	2079.00 2577.00
Infrastructure development (3).	Men Women Total	42 54 96	40.35 54.84	1694.50 2961.50
Human resource development (4).	Men Women Total	42 54 96	46.11 50.36	1936.50 2719.50
Development of accommodation capacity (5).	Men Women Total	42 54 96	52.58 45.32	2208.50 2447.50

Analysing the means of the obtained ranks (Table no. 5) differences can be noted between men and women in terms of the importance granted to different possibilities of (re)development of local tourism.

Table no. 6 Values corresponding to the U test

Test statistics

	(1).	(2).	(3).	(4).	(5).
Mann-Whitney U	1071.000	1092.000	791.500	1033.500	962.500
Wilcoxon W	2556.000	2577.000	1694.500	1936.500	2447.500
Z	-472	-316	-2.576	-757	-1.290
Asymp.Sig.(2tailed)	.637	.752	.010	.449	.197

a. Grouping variable: Gender

By analyzing the values obtained (Table no. 6) using the SPSS program, it can be noted that the alternative hypothesis can be maintained but in the case of the alternative infrastructure development as z_U = - 2.576 < $z_{\alpha/2}$ = -1.96, therefore we can guarantee with 95% probability that between men and women that there are significant differences in the importance given to infrastructure as a real possibility of (re)development of local tourism. For the other possibilities of (re)development it can be observed that z_U is greater than $z_{\alpha/2}$ and therefore we reject the alternative hypothesis and accept the null hypothesis i.e. we cannot guarantee with 95% probability that between men and women there are significant differences in the importance given to the following possibilities of (re)development of local tourism: development of resort image, development of the possibilities of spending leisure time, human resource development, development of accommodation capacity.

(4). H_0 = There is no difference between the age of respondents in their opinion about the importance given to the different possibilities of (re)development of local tourism.

Information regarding the size of each group in the sample and the mean ranks corresponding to the groups are presented in Table no. 7:

Table no. 7 Mean ranks in the case of the Kruskal - Wallis test

Ranks

	Age	N	Mean Rank
Development of the resort image (1).	18-36 years	44	52.42
	37-55years	41	42.07
	above 55 years	11	56.77
	Total	96	
Development of the possibilities of spending leisure time (2).	18-36 years	44	53.16
	37-55years	41	46.66
	above 55 years	11	36.73
	Total	96	
Infrastructure development (3).	18-36 years	44	51.63
	37-55years	41	44.06
	above 55 years	11	52.55
	Total	96	
Human resource development (4).	18-36 years	44	46.99
	37-55years	41	52.60
	above 55 years	11	39.27
	Total	96	

Development of accommodation capacity (5).	18-36 years 37-55years above 55 years Total	44 41 11 96	46.65 54.48 33.64

The respondents belonging to different categories of ages valuate differently the various possibilities of (re)development of local tourism.

Table no .8 The calculated values in the case of Kruskal - Walis test.
Test statistics

	(1).	(2).	(3).	(4).	(5).
Chi Square	4.139	3.506	1.895	2.311	5.409
df	2	2	2	2	2
Asymp.Sig.(2tailed)	.126	.173	.388	.315	.067

a. Kruskall Wallis test

b. Grouping variable: Age

Null hypothesis is accepted in each case as the calculated H values are lower than the value $\chi^2_{0,05;2}$ = 5.991 (Table no. 8) therefore between the three population groups there is no difference in the importance given to different possibilities for (re)development of local tourism.

5. Conclusions

It is very interesting that when significant differences were found between respondents' age and the appraisal of the activities of the local council concerning the local tourism, we can not say the same thing with the importance given to different possibilities for (re)development of local tourism and the respondents' age which shows that respondents, regardless of the age category, give the same attention to the possibilities mentioned in the questionnaire on the (re)development of tourism in Malnaş Băi resort.

In our opinion the best possible exploitation of tourism potential requires specific actions, coordinated simultaneously on three levels:

1. at the level of tourism companies and organizations;
2. at the level of the local , county and regional state administration bodies;
3. at the level of the central bodies and government.

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THE SOCIAL MEDIA IMPACT ON SMALL AND MEDIUM SIZED BUSINESSES

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Abstract: This paper aims to be a short introduction to social media and discusses on few ways in which small and medium sized businesses in Romania can take advantage of this hot topic. Through the use of social media every company can reach a global audience with less effort, time and money. In a world shaped more and more around social platforms the customer behaviour has completely and forever changed and those leaders and organizations that understand and embrace this new type of communication, collaboration and interaction with customers are going to survive over the next five years.

JEL classification: M15, M51

Key words: customer interaction, collaboration, sharing, acting social, customer engagement, social media, business opportunities,

1. WHAT IS AND WHY WE NEED SOCIAL MEDIA?

Social media is not a new concept anymore since so many people in Romania are using daily social platforms like Facebook, LinkedIn, YouTube, Twitter, Flickr, Wikipedia, and so on. The well known Facebook site is a social networking service and website launched in February 2004, operated and privately owned by Facebook Inc which has today more than 850 million active users worldwide. Each user must register before using the site, after which they may create a personal profile, add other users as friends, and exchange messages, including automatic notifications when they update their profile.

Right now in Romania there are more then 4,5 million Facebook accounts which represent 45% percent of the people in Romania connected to the Internet. That is a large audience for any company doing business in Romania.

Thanks to social media, all that people easily share ideas, photos, videos, likes and dislikes, with the world at large - and find out what they think of them. They can find friends, business contacts and become part of a community or a bunch of different communities. Social media gives everybody what TV never could - a chance to be engaged and engage others.

Because of the fast pace of adoption worldwide companies have started to look at social media with a lot of interest and are investing more and more time and money to figure out ways in which they can make profitable use of applications such as Wikipedia, YouTube, Facebook, Second Life, and Twitter. Yet despite this interest, there seems to be very limited understanding of what the term “Social Media” exactly means.

Wikipedia says that social media includes web-based and mobile technologies used to turn communication into interactive dialogue. Andreas Kaplan and Michael Haenlein (2010) define social media as "a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content. Social media is media for social interaction as a super-set beyond social communication. Enabled by ubiquitously accessible and scalable communication techniques, social media has substantially changed the way organizations, communities, and individuals communicate and interact.

We can thing of social media as much more than just a simple socializing tool because many people are beginning to perceive social media as a phenomenon: social media tools are becoming a way of business and a way of life, creating an information flow like never seen before and promoting ideas that would otherwise never be known to the public.

Due to these recent developments, we are witnessing an increasing rate of websites and social media trends, especially in business environments. Small businesses must take advantages of the small costs attached to promoting themselves with online resources. At the same time, bigger companies are beginning to acknowledge the positive impact that the use of social media might have on their communication processes, externally with their stakeholders, but also internally with their employees and partners all over the value chain.

Especially for start-ups and new businesses in Romania the use of social media can help them overcome all types of cost and geographic barriers and can make a difference between success and failure in the years to come.

Entrepreneurs and top managers must embrace this new type of customer interaction and identify more ways of fuelling the future growth of their organization based on that because social media platforms have completely and forever changed customer behaviour. Through the use of social platforms a simple communication has become an interactive communication where all sides are generating value in a collaborative environment which goes beyond the formal borders that used to separate internal communication from the external communication. With this platforms everybody share information, adds valuable content and in the end it is each organization’s role to extract the major takeaways and develop new products and services based on that.

2. SOCIAL MEDIA’S ADDED VALUE OVER CLASSIC MEDIA

As opposed to classic media the social media creates the environment for each and every single human being to be able to create and share content, to express feelings and thoughts on topics of interest at the cost of connecting to the internet. The costs for sharing to one or 1000 subscribers is so small but the business impact is so large. Generating valuable content will help companies reach to a global audience in ways and with costs that nobody has ever thought of before.

There are several differences that need to be acknowledged between the classic media and social media and from that on lies the foundation of social media impact on small and medium sized businesses:

Both types of media offer scalability and global reaches but at different level of costs which give advantage to social media over other types of media since the costs associated with it are small and the content’s relevance gets more importance. With the right content constantly delivered you can get plenty of subscribers connected to you.

So far only few people could have created and share content which is not the case anymore. Today everybody that has o connection to the internet has no limits in creating and sharing content. If the content is of any value it will get it's followers as soon as possible.

The technology behind using social media or creating a blog is far less complicated than that of classic media. You don't need experts, special machines and so on in order to create and deliver content you just have to have the right content and then use one of the so many free platforms available worldwide. No need to have strong IT background as these platforms (Facebook, WordPress, Blogger, etc) is so easy and intuitive to use.

In the Internet era nobody has enough time to wait, everybody wants to find out and share new things extremely fast and by using social platforms it it's possible at the cost of being connected to the internet.

Social platforms are open and flexible enough to allow the sharing of information to be done fast and from one platform to another thus including interaction with and between followers. The readers can add more value to the content shared, can make real time comments and the opportunity to be engaged in the conversation brings more relevance to that topic.

As already mentioned because of all these differences in the way anybody can create and share content on one side and behave as consumers on the other side there is a large opportunity for business environment to act differently and engage more with their customers. They can benefit from the first mover advantage.

3. THE SOCIAL MEDIA BUSINESS BENEFITS

We have discussed so far on what social media is and why it is of interest to business leaders identifying the improvements over classic media but in the following lines we have to streamline the business benefits of integrating social media tools in the core business processes of each organization as a way to gain competitive advantage.

Based on a study conducted by CompTIA's Social Business in 2012 it seems like the top five business benefits of employing social tools are:

- Better communication with customers, cited by 61% of responding companies
- Cost savings (51%)
- Brand positioning (49%)
- Real-time customer satisfaction and interaction (48%)
- Potential lead generation (43%)

The item mentioned the most is better communication with customers. Isn't that what marketing is all about. If you have this benefit, all of the others will happen to some extent.

Putting it all together based on our research we have to add that not only the external communication needs to be mentioned but also the internal communication between the employees. Further more the boundaries between internal and external communication become more and more fuzzy with customers interacting closely to employees.

Company leaders have to take into consideration that in order to become social they must give up control and they need to stop trying to control everything it's been said on the communication platforms. The must get into the role of a facilitator which is a major shift in thinking and acting as a company leader.

On the other side employees are given the freedom to express and interact with each other and with customers anytime, anywhere and on any device so they have to keep up with the expectations and engage more.

Today more then ever before each customer has to be carefully served because he has easy access to tools and communities where he can affect the company image and it's well known that an unsatisfied customer will tell 10-20 friends about his experience while a satisfied customer will only share his experience with up to 3 friends. So all the benefits brought by social media can turn against you generating more damage.

4. From social media to social business –power to the people

The Social Media revolution is a consumer revolution. The democratization of media has shifted power away from corporations and media owners and into the hands of the general public. Today, brands are co-owned by consumers.

More and more people or better said consumers realize that social media tools are becoming a way of business and a way of life, creating an information flow like never seen before and promoting ideas that would otherwise never be known to the public. Because of that we are living in a social world and the intelligent companies and leaders are transforming their business into a social business and become a social organization.

A social organization, as defined by Anthony J. Bradley and Mark P. MsDonald (2011), is the one that strategically applies mass collaboration to address important business challenges and opportunities.

Its leaders recognize that becoming a social enterprise is not about incremental improvement. They know it demands a new way of thinking, and so they're moving beyond tactical, one-time grass-roots efforts and pushing for greater business impact through a thoughtful, planned approach to applying social media.

As a result, a social organization is able to be more agile, produce better out-comes, and even develop entirely new ways of operating that are only achievable through mobilizing the collective talent, energy, ideas, and efforts of communities.

In a social organization, employees, customers, suppliers, and all other stakeholders can participate directly in the creation of value. In many cases they even participate directly in delivering business value. They're all integral parts of how the firm does it's work, and they work together to get the greatest value from the company's products and services.

This distinctive type of communication with fuzzy boundaries between inside and outside where people use open and flexible platforms to collaborate generating collective intelligence as a way to innovate and become a customer centric organization is the real business benefits of social media.

5. Conclusions

The major objective of this paper, from an academic and business perspective, is setting a ground base for future research and advancing ideas that could be further researched into, in order to explain whether and how social media could add value to small and medium sized organizations.

The fast pace of web 2.0 technologies development has changed forever the business environment and the way customers demand for more and better services and products for less many or time to market cycles.

There has been a shift in power for consumers and this is why the companies have to constantly transform and adapt to the evolving needs of their social customers otherwise they will lose them.

The growing number of people using social technologies is a prove that there was a need out there to be addressed and that companies have to listen to the voice of each of their customers. They need to interact all the time with customers and to engage in developing better products and services otherwise those customers will leave to more flexible and customer centric approaches.

Through the rise and development of Internet and social technologies companies are facing huge business opportunities and most of the boundaries that restricted their expansion are gone so it’s up to them to decide whether or not to embrace this new wave of social media technologies.

The social business has to start by redefining it’s business culture and values and to continue by integrating social technologies in it’s core processes as a way to transform and adapt to the evolving needs of it’s social employees and customers.

The new business culture has to be based on mass collaboration and innovation, to react rapidly to changes and to make better and faster decisions that leverage the intelligence of customers, partners, suppliers and employees collected form all over the world.

We believe that the real global and social organization is the one which opens up to the world innovating and collaborating with customers and employees worldwide, sharing resources that used to be well guarded in the past, to harness the transformative power of social media platforms.

We hope we managed to raise awareness to small and medium sized business managers on social media impact and even if the social organization is currently at the very early adoption stage in Romania significant competitive advantage will come to those who embrace it as soon as possible.

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