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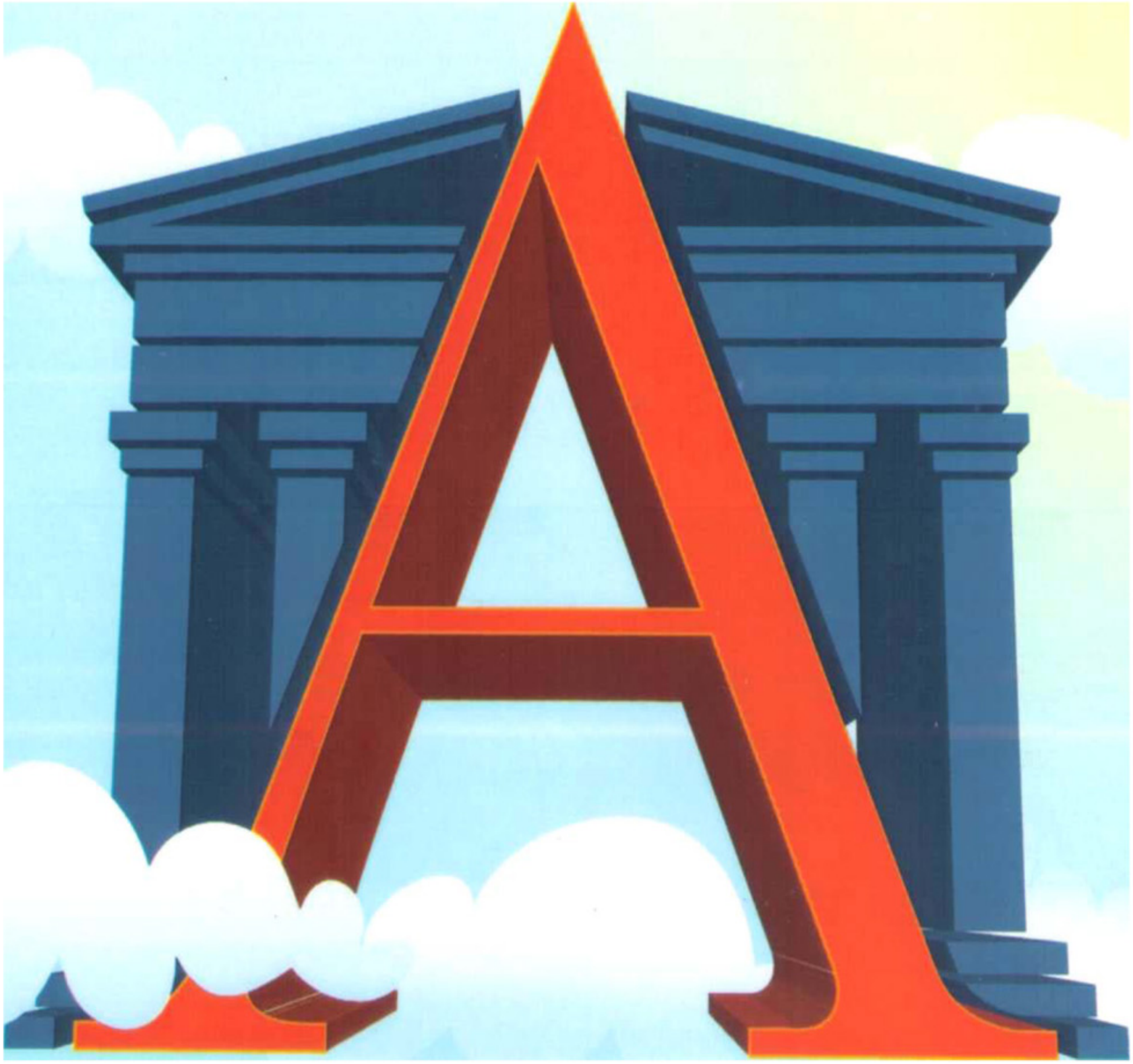

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C O N T E N T S

CONSIDERATIONS ABOUT THE PRIORITIES IN THE FIELD OF EDUCATION AND TRAINING IN EUROPE IN THE CURRENT ECONOMIC CONTEXT

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Abstract

European education has witnessed major transformations in the last decades, influenced by the international and natioall changes strongly marked by the manifestation of the global economic crisis. Education and training play a key role in the economic activity in that it represents an important objective in the context of the implementation of the Bologna process in Romania. The aim of this study is to provide a profound understanding on the role that education plays on the knowledge society through educational and training policies expressed both at the European Union level and at that of Member States.

Key words: education, training, priorities, indicators, economic crisis

JEL classification: I21, I25, E60, P46

1. Introduction

Education plays a vital role within the European society being the creator of the applicable knowledge in society and economics, and also by generating economic and social development process. Educational institutions in Europe tend to modernize both on regarding the courses provided and on operating mode while the European states and private agents involved seek to resort to new ways of co-ordination and funding that are more efficient.

A solid cooperation in the field of education and training will have a special contribution to ensure the success of the European Union enlargement and to achieve the objectives identified by the European Council in Lisbon. Thus, the principles on which the cooperation in the field of education and training will be based have been defined as follows: the cooperation will be based on the objectives that had to be achieved by 2010 as settled by the European Council in Lisbon; the measures will be voluntary and determined mainly by the cooperation from the lower to the upper levels, vertically; initiatives will focus on the needs of the citizens and of the beneficiary organizations; the integrative cooperation entails the involvement of the Member States, of the European Commission and of the candidate countries. It will also include the states of the Free Trade European Association, the states of the European Economic Area and its social partners, however, the basic principle of education and vocational training policy is that of respect towards cultural and linguistic diversity.

The European Union competences in the field of education, vocational training and youth fall into the category of *supporting, co-ordinating or complementing the actions of the Member States,* according to the modifications brought about by the Treaty in Lisbon in the case of legal instruments. The Member States retain a significant deal of freedom of action and remain primarily responsible towards citizens. In these areas, *it is not necessary to harmonize national legislation with the community acquis, more precisely, it does not aim at achieving a common policy in the field of education and vocational training,* but at saving the diversity and specificity of each country. One of the 31 chapters of *the community acquis* is the one related to ”*Education, vocational training and youth*”, chapter negotiated by the countries that joined the EU in 2004 and 2007.

One of the priorities of action to modernize the European social model, settled upon in Lisbon, referred also to ”*stimulating education and vocational training in order to live and work in the knowledge society”*.

2. Modernizing education and vocational training

The modernization of education and vocational training has a vital contribution to ensuring the prosperity and social cohesion in Europe.

European-level assessments reveal the following: ”Although national reforms are heading to the right direction, their pace has to be hastened. Investments in preuniversity education have great importance in preventing school abandonment and social exclusion, and also in building the foundation for later learning[1]”.

Also at an European level, the contribution of education and training to social cohesion is emphasized as well. *All citizens need to acquire and continually update their knowledge, skills and competences using lifelong learning (Lifelong Learning).* The needs of those who may be exposed to social exclusion should be taken into consideration. This will lead to economic growth and labour force participation while ensuring social cohesion.

A greater investment in the development of human capital is to be noticed at an European level. Public expenditure on education, as percent of GDP, have been rising in almost all West European States, on average 5.41% in 2009 as compared to 4.9% in 2000[2].

3. Permanent priorities in education and vocational training

Learning Foreign Languages

The European Commission outlined the importance of foreign languages learning in two documents:

- *White Paper (1995) on education and training ”Learning and Teaching: Towards a Learning Society”*;
- *Green Paper (1996): ”Education, Training, Research. Obstacles to Transnational Mobility”.*

Thus, it is shown that the learning of at least two official languages of the Community is necessary to all citizens in order for them to fully benefit from the opportunities granted by the single market. Encouraging Union citizens to learn foreign languages was also supported by declaring year 2001 as *”The European Year of Languages*”.

Moreover, to promote understanding and better communication

[1] *** - http://europa.eulscadplus/leg/en/cha/c//091.htm *Joint Interim Report of the Council and the Comission on the progress of the work program „*Education and Training 2010” [Official Journal C 79 of 01.04.20061

[2] *** - http://europa.eu/scadplusAleglenichalcl1091.htm

between the European citizens of the twenty-seven member states of the European Union, the following have been achieved:

- An action plan: *”Promoting foreign language learning* and *linguistic diversity: action plan 2004 -2006”.* This has identified *four action areas*:

  - ✓ Extending the benefits of foreign languages lifelong learning to all categories of citizens;
  - ✓ Improving the methods of foreign languages learning;
  - ✓ Creating an environment favorable to foreign languages learning;
  - ✓ Developing a framework for progress evaluation;

- An European indicator to linguistic competencies (Directive 356/2006);

- A new framework strategy for multilingualism (Directive 596/2006);

- A*”*framework for the European survey on linguistic competences” (Directive 184/2007). This survey should allow the identification of the youth’s language competences, deterination and identification of the best practices and performances, as well as the assessement of the progress made in order to achieve the aimed objective, namely to improve foreign language learning;

- A framework *regarding the implementation of the action plan ”Promoting foreign languages learning* and *linguistic diversity”.* This report concludes that Member States have made efforts towards carrying out a significant number of objectives settled in the action plan and that they should currently focus on foreign languages learning by adults, on extending the circle of interested parties in companies, on permanent vocational training and on informal languages learning through media and cultural activities.

Access to Education

The access to education represents the first step in achieving the goals of vocational training and educational policies. Ever since 1976, the question of access to education was raised, thus raising awareness on the problems related to *the integration of immigrants’ children* in the educational systems.

Later on, the issue of access to education for children of Roma origin and of disabled children became a priority for the European Union: ”special attention is given to *the access to education of children of Roma origin*[1]*, as well as to the integration of people with disabilities*[2] *in education and training*[3]*”.*

As a contribution to the Lisbon Strategy, the Ministries of Education adopted *common objectives for improving training and educational systems* and a work programme to achieve these objectives, a programme known as ”Education and Training 2010[4]”. The programme is implemented through the application of the open method of co-ordination, and the indicators and benchmarks techniques play an important role in monitoring and they provide support for exchanges of experience and good practices as well. The *three objectives* of the educational and training systems, as set out by the European Council in Stockholm (2001), with the same term of completion, took into consideration the following:

- The improvement of the quality and efficiency of the training and educational systems in the European Union;
- The facilitation of the access to education and training;
- The opening of the educational systems and vocational training to all persons.

The Member States established a total of 13 specific objectives, covering different types and levels of education and training (formal, non-formal, informal), promoting lifelong learning. Systems had to ensure improvement of all aspects: the teachers' training, the development of basic skills, the integration of ICT, efficiency of investments, promotion of foreign languages learning, systems' flexibility to ensure accessibility to learning for everyone, mobility, civic education, etc.

A press release of the Commission in 2007 proposed a *framework of indicators and best practices to monitor Lisbon objectives in education and vocational training,* a coherent framework to totally reflect – for the very first time – the most detailed objectives of the programme

[1] *** - Resolution of the Council and of the Ministers responsible for education adopted at the meeting of the Council in May 22nd, 1989 regarding the access to education of Roma children and nomads.

[2] *** - Resolution of the Council and of the Ministers responsible for education adopted at the meeting of the Council in May 31st, 1990 regarding the integration of children and young people with disabilities in the educational system.

[3] Pascal, I., Vlad, M., Deaconu, S., Vrabie, C., „*Educatia, formarea profesionala si tineretul*”, CRJ Publishing House, Bucharest, 2004, p. 17.

[4] *** - Joint Interim Report of the Council and the Commission: "Education & Training 2010: the success of the Lisbon strategy hinges on urgent reforms (2004) www.europa.eu.

entitled *"Education and Training 2010"*.[1] *The communication also covered the objectives referring to the convergence of Higher Education structures, in accordance with the Bologna Process and Stockholm Process regarding vocational training.*

Indicators and best practices represent key-elements for decision makers in monitoring the important achievements of Bologna Process. These provide tools for:

- The analysis of the progress in achieving the Lisbon objectives, both at EU level and national level;

- The identification of the examples of good performance that could re-examine or modify old practices;

- The comparison of the results of the Union with those of third countries (USA, Japan).

It is necessary to identify a new *framework of indicators,* different from the one that helped monitorizing the progress of the thirteen objectives during the period of 2003-2006. 20 core indicators and zonal indicators that come as completions to contextual indicators and whose use does not register any significant loss of details in the assessment of progress support this new framework.

In the future, indicators and good practices will be structured on eight key areas of the strategy. They are the following:

➢ *Turning the concept of "lifelong learning" into reality.* Lifelong learning has a vital role not only in ensuring competitiveness, employability and prosperity, *but also in ensuring social inclusion, an active participation of the citizens* and *an improvement of the way of living and working* within the knowledge-based economy. The Council has adopted several specific indicators that will suggest:

✓ By 2010, at least 85% of young people will have completed secondary education since graduation of at least high school is considered indispensible to having a career and to fully participating in lifelong learning.

✓ By 2010, 12.5% of adult people will have taken part in lifelong learning programme;

➢ Improving equity in education and vocational training. To invest

[1] *** - Communication From The Commission - "*A coherent framework of indicators and benchmarks for monitoring progresfi towards the Lisabon objectives în education and training*" Brussels, 21.2.2007, COM (2007) 61 final, www.europa.eu.

equity in education and training means to analyze the extent to which *”individuals can obtain full benefits in the area of education and training in terms of opportunity, access, treatment and outcomes*[1]*”.* In order to monitor progress in this area, the following indicators will be used: the degree of participation in preschool education and school abandonment.

- *Promoting efficiency in education and vocational training.* The same communication showed that ”improving efficiency does not have to compromise the equity of educational systems, on the contrary, efficiency and equity should support each other[2]”. The global indicator used is *investment in education and training;*

- *Core competences of young people.* The European framework defines the latest core competences as an important measure regarding the way Europe responds to the globalization challenges and to the transition to the knowledge-based economy, and it is made up of eight competences among which: native tongue, foreign languages, mathematical competences and those related to science and technology, ”digital” ones, skills on how to learn (learning to learn), intercultural, social and civic competences, cultural and entrepreneurship expression. A specific indicator is the one regarding the reduction of the number of children up to 15 years in the EU, children with low reading skills, with at least 20% as compared with the year 2000, and the core/ basic indicators used will consider the following: *knowledge in reading, Mathematics and Sciences,* foreign languages skills, ICT and civic skills;

- *Modernizing education in schools.* The following indicators are used: school management, the school – as a centre of learning in diverse fields of knowledge, professional development of teachers;

- *Modernizing education and vocational training.* The indicator used for monitoring progress is the degree of graduation of a secondary form of education. Contextual indicators regarding the continuous participation in vocational training will allow the analysis of the role of enterprises in terms of employees’ participation in vocational training;

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[1] *** - Communication from the Commission to the Council and to the European Parliament. Efficiency and Equity în European education and training systems Com (2006) 481, quoted in Communication From The Commission -"A coherent framework of indicators and benchmarks for monitoring progress towards the Lisabon objectives in education and training" Brussels, 2007, COM(2007), www.europa.eu

[2] Dima, I.C., Man, M., Vladutescu, St. (2012). Globalization – Education and management. Agendas. Chapter 11, The Company's Logistic Activity in the Conditions of Current Globalisation, Publisher Intech- Open Science/Open Minds, Rieka, Croatia

➢ *Modernizing Higher Education.* Considering the important role of universities in European research, the target of the European Union to invest 3% *of GDP in research and development by 2010,* will include a greater investment in research performed by universities.

The proposal advanced by the Commission consists of:

- ✓ Increasing the percentage of graduates who spend at least one semester abroad or in industry;
- ✓ Increasing with 15% the number of graduates in Mathematics, Sciences and Technology by 2010;
- ✓ Structuring the academic programmes in such a way that they will equally increase the graduates' chances to employment;
- ✓ Creating incentives for structured partnerships with the business community;
- ✓ Facilitating and accelerating the procedures for the recognition of higher education qualifications and adapting them to the ones applicable in the case of professional qualifications, facilitating the recognition of European diplomas outside the EU;
- ✓ Assigning a percentage of at least 2% of GNP (public and private funding) to a modernized higher education system by 2015
- ✓ Creating new funding systems for universities focused more on results that would assign a greater responsibility to institutions as compared to their long-term financial viability, especially in the research area.

4. Education and training in the context of Europe 2020 strategy

In the year 2009, the European Council drew up the strategic framework for European cooperation in education and training (”ET 2020”). Because of the changing of economic and political context, the European Union had to take additional measures to cope with the worst financial and economic crisis in its history and, as a reaction to it, adopted a strategy for an intelligent growth, sustainable and favorable to inclusion: Europe 2020 strategy.

Annual analysis of growth (AAG) for 2012 pointed out that Europe 2020 strategy had to lay emphasis both on reforming measures with short-term effects on growth, and on establishing a pattern for medium-term growth. Educational and training systems have to be upgraded to consolidate their quality and effectiveness, and to equip people with the necessary qualifications and skills to succeed in the labour market. This will enhance people's confidence in their ability to cope with present and future challenges, will contribute to Europe's improvement in competitiveness and will also generate growth and jobs. AAG for 2012 requested a special attention on young people who are among the groups most affected by the crisis.

Since it represents a key-tool in the modernization of education and training, ET 2020 can have a significant contribution to achieving the objectives of Europe 2020 strategy, and, for this, ET 2020 has to be adjusted by updating the working priorities, the tools and its structure of governance and the proposal of priorities for 20120-2014, that are designed to mobilize the sector of education and training in order to support Europe 2020 strategy. In this respect, progress must be achieved in the following primary areas:

- ***Investments and reforms in education and training.*** At present, all public budgets, including education and training, are subject to a thorough examination. Most of the Member States face difficulties in maintaining present levels of expenditure, without mentioning their increase. Nevertheless, research suggests that the improvement of the level of studies could lead to significant benefits on the long term and could generate growth and jobs within the European Union.[1] For example, fulfilling the criteria of the European reference, which consists in reducing the percentage of the persons with a low level of basic skills to a level below 15% by 2010, could generate huge economic benefits on the long-term for the European Union. This contradicts the fact that, even before the crisis, the expenses in some member states were relatively small, around 4% of GDP or even less, while the average in the European Union would rise up to 5% of GDP, below the level of 5.3% in the USA. Budget reduction for education risks undermining the growth potential of the economy and competitiveness.

- ***Early abandonment of school.*** Crisis seriously affects young people's perspectives. Unemployment amongst the young increased from 15.5% in 2008 to 20,9% in 2010, while the ratio of people between the ages of 15 and 24 years old who are not included in any form of education, do not work or do not take part in any training course increased by two percent. Among the persons who had abandoned school early, 53% of them were unemployed. In this context, the objective of Europe 2020 strategy to reduce by 2020 the proportion of the persons with ages between 18 and 24 years old who have prematurely abandoned education and training to a level

[1] Pirvu G. (2010), „*Politici ale Uniunii Europene",* Universitaria Publishing House, Craiova

below 10%, becomes vital. In 2010, despite a certain progress, the rate of early abandonment of school was still under 14.1% on average in the European Union, with considerable differences from one country to another. It was proved that boys are more exposed to the risk of early school abandonment (16%) than girls (12.6%).

➢ ***Graduation from tertiary education or the equivalent.*** In order to leave the crisis stronger, Europe needs to generate an economic growth based on knowledge and innovation. Tertiary education or the equivalent can be a strong driving force in this respect by creating a highly qualified labour force that Europe needs to make progress in the area of research and of development, and by equipping people with the necessary skills and qualification in a knowledge-based economy. Europe 2020 strategy has set as its main objective a growth of up to 40%, by 2020, of the percentage of persons aged between 30 and 34 years old who hold either a diploma in the tertiary education or the equivalent qualifications. In 2010, 33.6% of the people belonging to this age category would have a diploma in the tertiary education or the equivalent. Graduation rates, national goals and ambition levels vary considerably from one country to another.

➢ ***Longlife learning strategies.*** For most Europeans, longlife learning does not represent a reality. Although the participation in education and training in the early years of life has increased, recent data about adults aged between 25 and 64 years old who continuously learn all their lives indicate a slight tendency to decline. The current level of 9.1% (2010) is far below the reference level of 15% set in ET 2020 and which has to be reached by 2020. This poor result is particularly serious in the context of the current crisis. Young unemployed people and poorly qualified adults should be able to rely on education and training to stand better chances in the labour market. [1] The fact that no investment is made in their skills diminishes both their chances of returning to the labour market and Europe's potential to generate growth and jobs.

➢ ***Mobility in educational purpose.*** Mobility consolidates the foundations of Europe for a future growth based on knowledge and the capacity to innovate and compete internationally, and it also consolidates the ability of professional insertion and personal development which is appreciated by employers. Educational institutions, educational and training

[1] Pert S., *„Educatia si invatarea pe tot parcursul vietii mai mult decât FPC/EP". Clasificari conceptuale,* Economic Library Collection, Economic problems series, vol.188-189, CIDE, Bucharest

systems and enterprises as well benefit from the learning experience, the personal contacts and the networking resulting from mobility. Promoting transnational mobility for educational purposes is an excellent example of European added value.

- ***New competences and jobs.*** The crisis has brought about changes in terms of skills' application. The demand for jobs requiring poor qualifications is decreasing, and future industries based on knowledge impose higher levels of qualification. According to recent forecasts, the number of highly qualified jobs will increase by around 16 million, from 29% (2010) to 35% of total jobs in 2020. However, it is expected that the number of jobs requiring a poor level of competences decrease by 12 million, from 20% to less than 15%. Some countries already face difficulties when it comes to highly qualified jobs. These will be aggravated by the effects of aging population when labour force starts diminishing after 2012.

On the basis of the European Commission's evaluation and consultation with the Member States and the interested European organizations, the Council and the Commission confirm the fact that the four strategic objectives of ET 2020 established in 2009 remain valid, and they are the following: the implementation of lifelong learning and of mobility; the improvement of education and training quality and efficiency; the promotion of equity, social cohesion and active citizenship; the improvement of creativity and innovation, entrepreneurship spirit included, at all levels of education and training. In order to achieve these objectives, there will be identified the priority areas leading to an improved efficiency of the European co-operation in education and training to favor economic growth and employment.

5. Conclusions

Education and vocational training help gaining a better understanding of values, such as solidarity, equality of chances and social participation. There is also a direct relationship between *education and vocational training* and health, environment, life quality and criminality rate. Education represents also one of the possibilities to reduce unemployment, especially among young people. Increasing labour force participation will determine an accelerating economic growth, and at the same time will ensure social cohesion. European politics in education was promoted by the Lisbon strategy in 2000, an EU's programme on economic growth and employment. Knowledge and innovation are the most precious values of the EU, and of society on the whole, especially when global competition tends to continually increase.

Although it is the national governments that are responsible with national individual politics in education, there are also elements and challenges common to all Member States, such: as the process of aging society, the shortage of labour force skills, and the need of common answers and solutions to the problem of global competition and collaboration. The economic and social success of the European model largely depends on the high quality of education, on the whole, and of the academic training in particular. Continuous training must become an essential condition of the European education and, at the same time, it is a key element of economic growth and employment, and a requirement of participation in social and economic life.

To conclude, there is a need of transformations in educational and training systems, of promoting co-operation at European level, as well as of best practices exchanges so that various education and training systems should share the same goals.

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A HISTORICAL OVERWIEW OF ACCOUNTING IN TURKEY

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Abstract

Objectives: *The purpose of this article was to review the historical evolution of accounting in the late Ottoman Empire and the modern Republic of Turkey.*

Prior Work: *This paper is trying to extant a research to observe the historical development of accounting practices in Turkey. During the analyses around 2 authors' books were related to this paper.*

Approach: *During the study it was focused to collect information observation through published academic books and articles.*

Results: *The empirical studies, evidence or experiences presented in the part of conclusion that the accounting system of Turkey have had a considerable development since the establishment of the Republic of Turkey (1923).*

Implications: *An overview of Turkish and global sources suggested the importance of the following themes: (a) immature capitalism and a strongly hierarchical monarchy in the Ottoman Empire retarded the development of modern accounting; and (b) maturing capital and integration with the global market, especially after the decline of the one-party state system, led to the adoption of modern accounting systems and standards in the Republic of Turkey.*

Value: *The historical overview thus provides an illustrative discussion of how and why Turkish accounting has evolved over the past years.*

Keywords: Accounting development; Turkey's accounting system; Accounting background in Turkey

JEL code: M41

1. Introduction

The history of accounting in Turkey is a study in change. The Ottoman Empire, the entity from which the Republic of Turkey emerged in 1923, employed accounting approaches and practices that were entirely alien from Western single- and double-entry book-keeping (Guvemli, 1995), and that were yet used across a substantial part of Europe due to the Ottoman conquests. Modern Turkey, on the other hand, has moved closer to the mainstream of international financial reporting standards (IFRS) (United Nations, 2008). The fact that the Ottoman Empire kept a vast number of records, many of which remain access to researchers of the Ottoman Archives in Istanbul, means that there is an opportunity to understand and reconstruct the evolution of Turkish accounting over a period of nearly eight centuries.

The purpose of this article is to offer a brief but useful outline of the evolution of accounting in Turkey, beginning in Ottoman times and moving forward to the present era of IFRS. In addition to its usefulness for historians and accountants who focus on Turkish studies, such an exercise is generally useful because it offers answers to the following kinds of questions:

- How does accounting develop in response to the specific needs and constraints of a state?
- In what manner does accounting assimilate influences while evolving into the service of a particular state?
- How do changes in the nature of commerce (for example, from agriculture to industrial manufacture and later services) impact the evolution of an accounting system?
- How do changes in political economy (in the case of Turkey, a transition from empire to democracy) impact the evolution of an accounting system?

In this manner, a study of the evolution of Turkish accounting can be used to illuminate problems of history while history can also be used as a theoretical prism through which to understand changes in accounting.

2. The Purposes of Accounting in the Ottoman Empire

The very word *accounting* has its primary meaning the dispensation of knowledge to a party with some authority over, and interest in, this knowledge (Nikolai, Bazley, & Jones, 2009); the practice of accounting, then, implies some responsibility between the entity performing the accounting and the entity to which the accounting is made. What we know of the history of Western accounting is that such practices as double-entry book-keeping began as a necessary means of allowing merchants to understand their business and soon became a nececessary means of communicating facts about that business to shareholders (Nikolai et al., 2009).

In the case of the Ottoman Empire, the needs of accounting were very different. While Western accounting was developing according to the needs of businesspeople and, subsequently, shareholders, the Ottoman Empire was arranged in a manner such that the state was itself the premier owner and business entity. In theory, the state's assets belonged to the Emperor, who then dispensed with these assets on the basis of state tradition, Islamic law, and expedience. Kia (2011) wrote of the Ottoman Emperor that

At the top of the power pyramid stood the sultan, an absolute divine-right monarch. Since in theory the sultan enjoyed absolute god-given authority to rule, his subejcts considered him the sole source of legitimate power; he could, therefore, demand absolute obedience from them, including complete control over their lives and possessions. He owned all state lands and could dispose of them as he saw fit. (p. 36).

The Ottoman Empire's relationship to accounting has to be understood not only through the framework of the Emperor's absolute power but also as a reflection of the administrative needs of an expanding empire.

Ibn Khaldun, the 14th-century Muslim historian, wrote at a time during which the Ottoman Empire was steadily expanding across Asia Minor, taking land that formerly belonged to the Byzantine Empire. Ibn Khaldun referred to accounting as one of the three pillars of all Islamic states and stated that

> Royal authority requires soldiers, money, and the means to communicate with those who are absent. The ruler, therefore, needs persons to help him in the matters concerned with "the sword", "the pen", and finances. Thus, the person who holds the office (of tax collections) has (a good) part of the royal authority for himself. (Ibn Khaldun, 2005, p. 199)

In Europe, this aspect of accounting was undoubtedly important for empires and smaller feudalistic states. However, Europe also supported a thriving ecosystem of private traders, and various conflicts between the monarchy and other stakeholders in the state had also rendered European kings less able to claim public wealth for themselves. Commons (2008) has noted that, in Europe, "The collective bargaining over rents…transferred dominion from the will of the sovereign to the will of the tenant" (p. 220), a development that never took place, at least to the same extent, in the Ottoman Empire.

In the Ottoman Empire, the sovereignty of the Emperor remained stronger than that of any European potentate. There was no Magna Carta to force the Ottoman Emperor to share power or wealth with internal peers; after the 1517 conquest of present-day Saudi Arabia by Emperor Selim the Grim, the Ottoman Emperor also became the Caliph of Islam, concentrating in this one personage supreme secular and religious power (Kia, 2011).

The Ottoman Empire was a state in continuous expansion (it did not stop expanding from the end of the 13th century to 1683, when the Ottomans were repulsed from Vienna) as well as a state run by an absolute monarch who required not only a constant stream of revenue but also a relatively simple means of learning facts about these revenue (Guvemli, 2000). These facts required Ottoman accounting to serve a much simpler set of functions than did Western accounting. Ottoman accounting is best understood as a form of fulfilling the needs of what Ibn Khaldun (2005) referred to as "royal authority" (p. 199) rather than as the kind of data needed by merchants or shareholders. In considering the character of Ottoman accounting documents, then, these historical facts have to be borne in mind.

3. Some Ottoman Accounting Principles and Their Evolution

Numerous principles of Ottoman accounting have been identified and discussed by both Turkish and Western scholars. One such principle is that of the *merdiban*, or ladder, method of accounting reporting. The *merdiban* method was described in detail in a paper presented by Guvemli and Guvemli (2000). Guvemli and Guvemli pointed out that the *merdiban* method originated with the Abbasid Empire (750-1258) and was employed by the Ilkhanid Empire (1256-1335) before being adopted by the Ottoman Empire. The Ottomans had been vassals of the Ilkhanids, fellow Turks whose base of rule was in Persia, and most likely adapted numerous features of the Ilkhanid accounting system, which in turn had been influenced by the accounting system of the Abbasids.

Figure 1 is a reproduction of Guvemli and Guvemli's (2000) transcription and translation of an actual *merdiban* document used by the Abbasids in the late 8th century:

A Record in the State Accountancy with Merdiban System used in Abbasids from 775 and 786

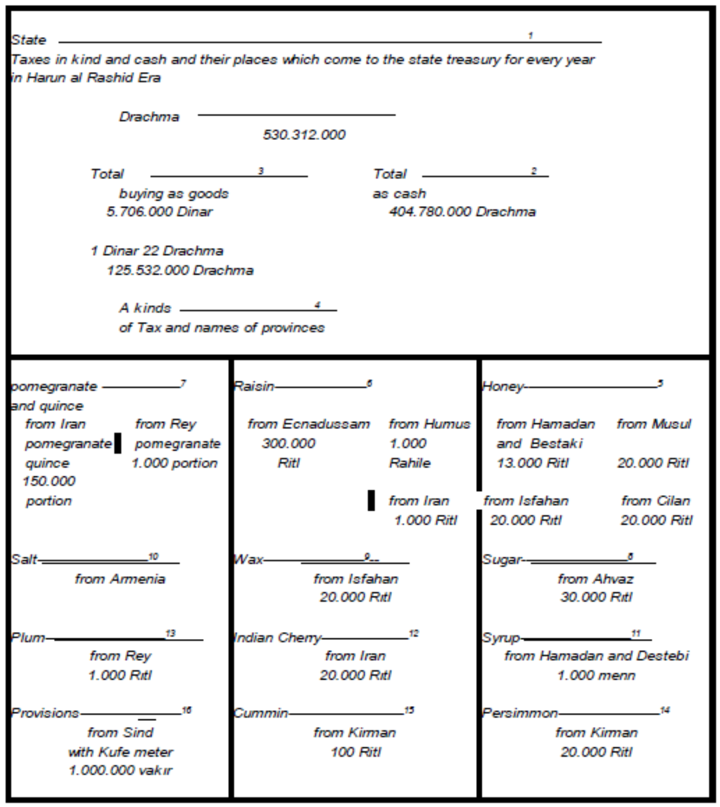

Figure 1. Merdiban **Document.** This transcription and translation of an early Abbasid example of *merdiban* accounting appeared in Guvemli and Guvemli (2000, p. 24).

The structure and purposes of the *merdiban* approach to accounting can be understood on the basis of what has already been explained about the Ottoman Empire. The *merdiban* in Figure 1 is a means of tabulating taxes received by the Abbasid Caliph Harun Al-Rashid. A glance at this document reveals the entirety of tax revenue as well as the sources of components of this revenue. In this document, there is no concept (and no need) for debits and credits, since the Caliph/Emperor is incapable of being indebted; he collects, but never owes.

Merdiban accounting did not evolve much from its origins in the 8th century Abbasid state to its use in the Ottoman Empire from the late 13th century onwards. *Merdiban* documents could be more or less complicated based on how many kinds of taxes are being collected from how many tax-paying entities, but in all cases were a form of imperial book-keeping that allowed absolute rulers to understand and document tax revenue in a relatively straightforward manner.

Another important feature of Ottoman accounting was *siyakat*. Faroqhi (1999) described *siyakat* as follows:

This was used by the Ottoman financial administration down into and beyond the eighteenth century. Figures were written not in Arabic numerals but in graphemes derived from the same numbers written out in Arabic words…This script was used to keep the information contained in the relevant documents secret, besides strengthening group consciousness among the limited of scribes 'in the know. (p. 72).

In the West, the emergence of joint stock companies was a powerful motivation for accounting documents to demonstrate simplicity and transparency as early as the 16th century (Henriques, 2007). At that period of the Middle Ages, there was also significant pressure on Western monarchs to share power with aristocrats, ecclesiastics, and, in some cases, merchants (Meehan, 1993). Thus, there were significant motivations to adopt transparent accountant practices in the West; these motivations did not exist in the Ottoman Empire, in which the Emperor retained a much larger share of relative power in society (Kia, 2011; Shaw, 1976) and thus had the ability (and incentive) to keep accounting a largely secret process.

There are, of course, many important features of Ottoman accounting, given the vast geographic extent and six-century history of the empire. The *merdiban* method and *siyakat* are two of the most commonly-mentioned aspects of Ottoman accounting. Both *meridban* and *siyakat* can be understood through the historical context of the Ottoman Empire, in which the sovereignty of the Emperor was significantly greater than that of European rulers and in which the flow of resources tended to be one way, from subjects to the state (personified by the Emperor).

4. The Evolution of Accounting in the Turkish Republic

The history of accounting in the Turkish Republic ought to be dated from 1839, when the Ottoman Empire underwent a sweeping series of reforms known as the Tanzimat. Although the Turkish Republic would not emerge for nearly another 90 years after the Tanzimat, the accounting reforms taken at that time were the harbingers of the development of accounting under the Turkish Republic.

➢ Double-Entry Accounting

In 1839, the Ottoman Empire abandoned its accounting system in favor of double-entry accounting (Guzel, Oguz, Karatay, & Ocak, 2002). There were numerous reasons for this decision. First, the Ottoman Empire had been in decline for decades; in 1683, the Ottomans had been repulsed from Vienna, and the 18th and 19th centuries saw a steady diminution in the territories controlled by the empire (Shaw, 1976). As the empire began to control its limitations, there was a consensus among the elites that the Ottoman system required a wide-ranging reform that would touch on matters of warfare, commerce, accounting, religion, administration, and culture; this reform was known as the Tanzimat. The adoption of double-entry book-keeping was thus in line with the Tanzimat's general spirit of identification and adoption of the best of Western practices.

However, the case can also be made that, by the 19th century, the Ottoman state was itself engaged in an increasing amount of international trade and was also home to numerous foreign merchants (for example, Greeks, Jews, and Armenians who lived in the foreign quarters of Istanbul) who would likely have employed double-entry book-keeping in their own private records. It is possible, then, that the adoption of double-entry book-keeping by the Ottomans in 1839 represented a combination of two-down pressure by a state that saw clear advantages in Western accounting methods and the bottom-up influence of commercial activity involving Western states.

➢ From the Early Republican Period to Globalization

The development of accounting principles in the era of the Turkish Republican (1923-) can be understood from various historical perspectives. One important point to which Aysan (2010) called attention was that there was no law to establish an accounting profession in Turkey until the remarkably late date of 1989. From 1923 onwards, there has been ongoing tension between Turkish accountants and Turkish lawyers; according to Aysan, lawyers have worked assiduously to prevent accountants from able to defend clients in court. These roots of this kind of inter-professional turf war can perhaps be traced to Ottoman traditions of strongly-defined professions. It is worth noting that the use of *siyakat* was at least partly a means of locking non-accountants out of the ability to handle, or even understand, accounts (Faroqhi, 1999). Aysan suggested that not only the institutional strength of lawyers but also the relative paucity of foreign trade allowed the Turkish state to ignore the statutory establishment of the accounting profession for a long time. While the Turkish state appeared to be fairly progressive in adopting accounting standards (first from German and French influences and subsequently from Anglo-Saxon influences), the absence of an institutionally-supported accounting law slowed down the adoption and spread of accounting best practices in Turkey (Aysan, 2010).

According to Demirag (1995), the maturation of accounting in Turkey has been a function of the maturation of capitalism itself, particularly trade-oriented global capitalism:

Changes…brought industrial capital to the forefront of Turkish capitalism and marked the end of the brief period of the monopolistic use of state power by the alliance of commercial and agricultural capital, and prepared the necessary dominance of monopoly / industrial and financial capital. (p. 260).

As such, according to Demirag (1995), the adoption and standardization of accounting approaches in Turkey has been driven by considerations of the market more so than by state dictate. This point is particularly relevant when considering the Turkish experience with International Financial Reporting Standards (IFRS).

- **IFRS**

For Turkey, the adoption of IFRS has been driven by a number of interests. Initially, IFRS adoption was seen as a means of signaling that Turkey was ready to the join the European Union (EU), of which it has been a candidate member for several years (OECD, 2006). Lately, after many Turks began to despair of being admitted into the EU, IFRS adoption began to be seen as a boon to Turkish business interests in an era of globalization and liberalization (Tiberghien, 2013). In recent years, Turkish economic growth has been extremely rapid, often second only to China (Pope & Pope, 2011). In this environment, Turkish businesses have proven to be increasingly important investment opportunities for individuals and organizations from all over the world. Thus, the adoption of IFRS is a means of ensuring Turkish competitiveness in a global investment landscape, given that so many investors are already familiar with IFRS.

The Turkish accounting system has only recently began to abandon a rules-based accounting approach for the principle-based IFRS approach, and this transition has imposed a heavy burden on auditors, students, and businesses (OECD, 2006). As the OECD has pointed out, Turkey's accounting system was adopted from older European models and was reliant on rules; however, during the process of Turkish candidacy to the European Union, the country adopted IFRS. Turkey's recent adoption of IFRS has resulted in a number of problems, including the failure of universities to graduate sufficient numbers of accounting trained in the new system and an over-reliance on foreign auditors (OECD, 2006). At the same time, Turkey's reliance on IFRS has been undermined by the somewhat capricious exercise of power by the government, which has imposed both fines and audits on political enemies (Psychogiopoulou, 2012). Thus, the best way to assess the Turkish accounting system vis-à-vis reliance on principles is as follows: The letter of the IFRS standard as adopted in Turkey is robust, but the environment in which auditing and enforcement takes place is occasionally poor.

Conclusion

The Republic of Turkey has undergone vast changes in its approach to accounting. The Ottoman Empire began with a system of accounting that had nothing in common with double-entry and other Western methods and ended with the adoption of double-entry, which it considered a best practice in accounting. Similarly, the history of accounting during the Turkish Republic has also been the history of a search for best practices tempered by numerous limitations in the readiness of companies and the audit abilities of the state and related organizations.

From 1839 onwards, it is clear that the Turks have been eager to identify and utilize the best forms of accounting, that is, the forms of accounting on which there is the broadest international consensus. This decision was motivated by the obvious decline of the Ottoman Empire and by the rise of commercial trade between the Turks and other nations. However, since the foundation of the Republic, there have been many problems that have prevented the Turkish state from taking full advantage of its decision to adopt international best practices in accounting.

During early Republican times, one of the problems was that the state's enthusiastic adoption of Western accounting methods was alien to private businesses in Turkey. To begin with, there was not much of a history of private business in the Ottoman Empire (Cizakca, 1996), and early Republican Turkey was not a truly free market society. The hand of the state was prominent in business, which made it relatively simple to impose specific accounting standards and approaches on government-owned or –controlled businesses, but which presented little incentive to private businesses to engage in the complex and costly endeavor of updating their own accounting systems.

It was not until the economic modernization of Turkey, a process that gained true momentum only under the regime of Turgut Ozal, that organic incentives for the general adoption of accounting standards emerged (Altug & Filiztekin, 2013). Turkish businesses saw, and actively benefited from, the opportunity to export to Europe and many other markets, and the expansion of wealth and credit within Turkey created a large important market (Altug & Filiztekin, 2013). In order to continue to benefit from Turkey's new economic role in the world, it is necessary for private businesses to embrace accounting best practices, which in recent years has meant IFRS. However, while there remains a powerful motivation to adopt IFRS, it remains the case that some audit mechanisms and assistance programs are underdeveloped. However, based on the trajectory of Turkish accounting history since 1839, it seems likely that Turkey will, sooner rather than later, close some of the gaps in its accounting competencies.

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CORPORATE GOVERNANCE RELATION WITH ACCOUTNING STANDARDS

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Abstract

The main objective of paper is to highlight on corporate governance relation with accounting standards through checking selective data base of leading companies in business world, annual reports of IASB, and random academic researches. Business world has been changes rapidly and dramatically requesting to harmonize accounting standards and corporate governance. The significant review of accounting standards is moved toward fair value evaluation called "mark-to-market accounting" shown obviously in IFRS 9 applied in 2013. Applicable guideline for IFRS 9 is presented in this paper with enhancing influences of corporate governance on responsible entities to adopt fair value as single measuring method. The main objective of these responsible entities is to gain lost-truth in financial markets. The paper presents a new perspective to academic researchers in relating accounting standards to corporate governance.

KEY WORDS: Accounting Standards, Corporate Governance, Fair value, Financial Instruments.

JEL classification: G34, M41, Q 56

1.Introduction

Recently significant emendations have taken place in accounting standards concentrating on measuring method. Using fair value as main measuring method in International Financial Reporting Standards is a step of several steps done by responsible organizations and institutions to face the new challenges of business world, which came as a result of integrating relationship between globalizations and unmoral attitude of leading companies to reach unstable financial situation. Over all enhance a belief that companies should be prepared for globalization instead of stepping away, all challenge can be managed by well monitoring. That cannot be done only by adopting new measuring method. There is important need to develop corporate governance with allowing it to take its nature position in business world.

Corporate governance has been existed in academic research in eighties of last century and even before started with adopting new production technology, opened economy markets and mobilizing capital. That means globalization helps corporate governance to grow up to be as an individual applicable set applied in business world (Keasey, Thompson and Wright, 2005). Relating that with agency theory illustrates how governance is moving in internal and external levels. By having internal view; corporate governance concentrates on internal stakeholders and their relations to ensure decisions implemented correctly to create value for shareholders (Keasey, 2005). Value creation of shareholder can be done smoothly through interests' reconciliation of stakeholders done by governance mechanism. Value creation can take two perspectives: Accounting perspective; investors need a fair financial statements presentation before making investing decision, Governance's perspective: investors are social members have interests in corporate responsibility. Therefore, investing decision is not related to company success only, but company behavior with employees and society is important as well. American experience with collapsing financial institutions such as Enron and WorldCom is considered as a note that significant individual failures of a company can be spread leading to misallocation of funds in short-run and systemic impacts in long-term investment if trust is affected negatively (Keasey, 2005). Applying agency theory with globalization influences moves interests' conflicts between shareholders and other stakeholders to be between managers and all stakeholders including shareholders to set a need of having monitoring tools on management. Ira M. Millstein says that disclosing financial, operational and controlling reports highlighting on management attitude to protect all shareholders, provides affective strategies and maintains independence in business plans through directors' controlling on management performance.

Corporate Governance and Accounting Standards

In the last decade many changes have taken place in accounting standards as responding on financial scandals. Summarizing that can be categorized in two main types; measuring methods and disclosing requirements. Accountably responding on these changes can be simply presenting in recognition and measuring methods. The relationship between fair value evaluation and invest decision with fixing other factors affects on equity and share capital positively. Quantitatively, there are no remarkable changes in International Accounting Standards and International Financial Reporting Standards limited on replacing standards. Qualitatively accounting standards are improved through adopting new measuring method presented in fair value, which is an independent factor and financial statements items are related factors. Empirical evidences show that measured items of financial statements by fair value are more likely to gain the lost trust of investors than traditional financial statements. As well the necessity of corporate governance is increased recently to pressure on the International Accounting Standards Board – IASB to amend accounting standards meeting governance needs. Many researches have treated these two topics individually and deeply without trying to connect accounting standards changes with governance developing requirements.

Corporate governance has failed to prevent financial scandal asking academic researchers and concerning institutions to develop corporate governance. The contents of corporate governance are increased dramatically with strong adopting by companies through issuing regulations and giving more space for self-regulation. By looking by one eye that could be an amazing effort has done by experts in this field, but that is limited since corporate governance is not acting alone in business world. There is an important partner called accounting standards need to be updated and improved as well. Governance reports must be presented in numbers attached to financial reports that means accountancy and corporate governance are communicating by accounting standards. Taking United Kingdom experience of corporate governance strongly considered as global application, corporate governance failures in facing financial crisis are reflected by adopting new changes in governance codes presented as the following (UK Corporate Governance Codes):

Cadbury code 1992	-		
Greenbury code 1995	-		
Combine code 1998	-		Main principles
Revised combine code 20003/06/08	17		
British corporate governance code 2010	18		
Cadbury code 1992	-		
Greenbury code 1995	-		
Combine code 1998	-		Supporting principles
Revised combine code 20003/06/08	26		
British corporate governance code 2010	24		
Cadbury code 1992	-		
Greenbury code 1995	-		
Combine code 1998	17		Principles
Revised combine code 20003/06/08	43		
British corporate governance code 2010	42		
Cadbury code 1992	19		
Greenbury code 1995	39		
Combine code 1998	47		Provisions
Revised combine code 20003/06/08	48		
British corporate governance code 2010	52		

The experience of American auditors is reflected in Sarbanes Oxley, which should grant assuming possibility for external auditors to expand role of providing confidence review on directors' statements of corporate governance, has been failed as well. Each code contains independent provisions and principles which in somehow minimize the role of external auditors to keep it in role of effective contributing with other stakeholder ensuring corporate governance. These updating or changes can be dropped on accounting standards. Simply checking accounting standards starting from 1990 till now tells that natural positive relationship between changes in corporate governance and in accounting standards exists.

The fact is that corporate governance supports Financial Reporting through assuring the need of high level of transparency; high quality standards and framework of regulation create a development key of economic. Financial statements provide indispensable information about a company to stakeholders. This information should be reliable, free-bias and comparative meaning that financial reports in cooperating with accounting standards to reflect a fair and real view of financial situation although to assure accountability. Financial crisis after global economic growth and corporate governance failures raise many challenges to be faced by business world through growing need to enable high quality of accounting standards to take place. In common sense board responsibility should be increased to be pursued with all stakeholders. G 20 enforces accounting institution to do more efforts in this direction; the responding comes from International Accounting Standards Board (IASB) by developing IFRS. In same direction of assuring high quality of accounting standards, corporate governance responsibility is growing up to face challenges of financial crisis caused by insufficiencies of financial reports and missing real disclosure. That makes real and visible problem caused of combing failures of accounting standards and corporate governance (UK Corporate Governance Code 2010). Principle-based characterizes IFRSs' features instead of rule-based; IFRSs involve widely in judgment of suitable accounting policies and substitute treatments including adoption time issue and developing acceptable high quality standards through issuing principle-based reporting standards and removing allowance of accounting substitutes by assuring better measuring method presented in fair value to be used in judgments, assumptions and estimates of management. Over all, important impacts affect on financial reports and force auditor committee and board of directors to deal with challenges effectively and to concentrate on how IFRSs gear companies' reports and how the quality of accounting standards should be increased. Also as part of the solution, IASB moves in three direction; toward generalizing accounting standards across all the world making accounting standards comparable between different companies in different places in same domain, other movements is that IFRS and IAS emendations adopt fair value serving transparency, and updating disclosure standards to cover gaps of pervious experiences.

Many academic researchers have described low-levels of integrity and low quality of financial reports as a result of governance and accounting standards limitations. To solve this issue is required process changing of corporate governance, but that cannot be done without changing in accounting standards. Accounting is part of boarder governance system, and governance limitations comes from weakness of accounting integrity and low quality of financial reporting creating a need from responsible players to act wiser. All of that is presented by IASB movement to apply widely fair value meaning IFRS will be "Fair-Value Based Standards". The valuation approach that IASC has embraced, is rapidly introducing 'fair value' as the primary basis for asset/liability measurement that financial reporting under IFRS largely involves in recognition process of asset and liability, initial measurement by fair value, largely revaluating at fair value and de-recognition. (Ernst & Young, 2005, p. 2)

Personal consideration, IFRS 9 is issued as responding to financial society demands communicating with governance requirements. Starting with 2013 IAS39 is considered from past through replacing with IFRS 9. The issue is not only related to categorizing financial statements' items, it is how to present these items and it becomes complicated with financial instruments. In 2009 the world leaders in G 20 announced that financial reports need some improvements especially IAS 39 to reduce its incompatibilities and difficulties. Some items had been recognized and others derecognized, which means the new standards must be applied in comparative period determining derecognized items. New classification models for financial assets and for amortized cost are found in IFRS 9 with no possibility of escaping from fair value estimating for non-enclosed equity investment, because of rising cash flow on certain dates exclusively considered as payments or interest on principal invest amount. European Union makes decision to delay applying IFRS 9 widely depending on financial considerations. In my opinion applying IFRS 9 now means financial assets must be re-evaluated in fair value, and by comparative methodology these assets are decreased by different rates inside EU. These losses must be recognized to affect the general financial situation to add other crisis for EU.

The decision was done by IASB cooperating with Accounting Council in United States of America to emendate Financial Instruments standard replacing IAS 39 with IFRS 9 through three stages; the first stage is focusing on financial assets recognition and measurement and other stages focus on impairment of financial instruments, hedge accounting, financial liabilities and exclusion.

Time-table of replacing IAS 39 by IFRS 9

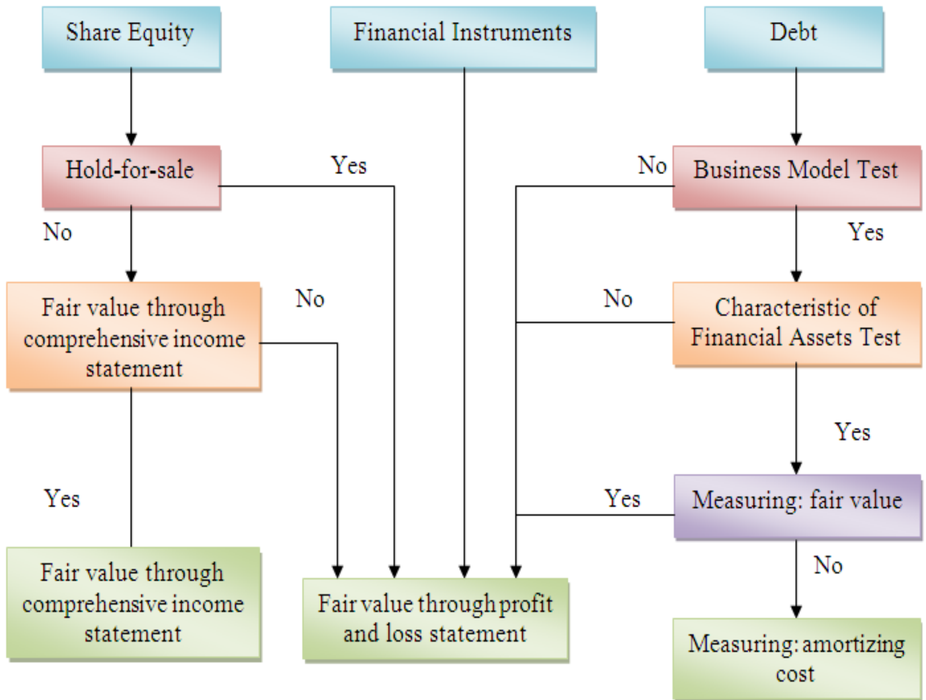
June 2009	Asking information on impairment (value decreasing)	
July 2009	Draft discussion: recognition and measurement	
Nov 2009	Financial Instruments: recognition and measurement (Financial Assets)	Draft discussion: Amortized cost and impairment
January 2010	Draft discussion: hedge accounting	Financial Instruments: recognition and measurement (Financial Liabilities)
April 2010	Amendment draft discussion	
December 210	Impairment standard, Hedge accounting standard	
Replacing IAS 39 completely	Exclusion standard	

Debt instruments: financial report indicates that financial assets are debt instruments should be tested in order to know if it is measured by using amortizing cost or not. Financial assets were hold according to Business Model – assets are retained to take advantage of cash – amortizing cost was used, among financial assets test – contractual conditions of financial instruments are referred in the date of cash flows considered as only payments for the asset and accrued interests basis on that asset – Fair value were used. Financial assets shall be measured at fair value, when is considered as investments in shares to be recognized in profit and loss statement. The company's option of financial instrument is not changeable unless investments in shares are hold for sale and in this case these investments must be recognized as profit or loss at fair value.

Transitional period: the actual date to apply IFRS 9 is the first of January 2013 with allowing earlier applying after first stage December 2009. The new standard is applicable in European Union countries with limitations. IFRS 9 is applied retroactively and the possibility of using amortizing cost or fair value for financial instruments is related to balance sheet instruments structured on facts and circumstance were available from fist applying. That asks financial statements after that date to not be tabulation.

Significant impact of applying IFRS 9: The applying of IFRS 9 will be different from company to another depending on impacts are caused by new rules of recognition and transitional period on profit and loss statement (IAS 39). By applying amortizing cost according to IFRS 9 only part of losses will be recognized in profit and loss statement caused by improvements of markets when IFRS 9 is applied. In same way, when the instrument were measured by amortizing cost (IAS 39) then it will be recognized by fair value through profit and loss statement (IFRS 9). Equity instrument hold-for-sale is re-recognized by fair value in profit and loss statement (IFRS 9), and investments hold-for-sale and recognized by fair value will be shown in comprehensive income statement (IFRS 9). Impairment of fair value will not be recorded as impairment, it will still appear in comprehensive income statement, and for instrument hold-for-sale and its value does not decrease by measuring at amortizing cost (IFRS 9), it will be reserved in comprehensive income statement.

Applicable guideline of IFRS 9



Challenges facing IFRS 9: the challenges can be presented as the following:

- Company needs to evaluate all financial instruments by IFRS 9. That requires applying necessary modifications on accounting system.
- There are many areas need to diligence and interpretation.
- Re-recognition financial instruments measured by IAS 39 may need to be recognized in fair value depending on business model and its characteristics.
- Re-recognition slides of debt securities will be complicated, because it will be subjected for underlying examination.
- Re-recognition financial assets from fair value to amortized cost; it is impossible to apply hedge accounting retroactively. The fair value amounts of last year would need explanation in case of profit or loss of these financial assets reflected on last year statement by changing financial instruments values. In addition, the effect on retrain earning of transitional period could be essentially in

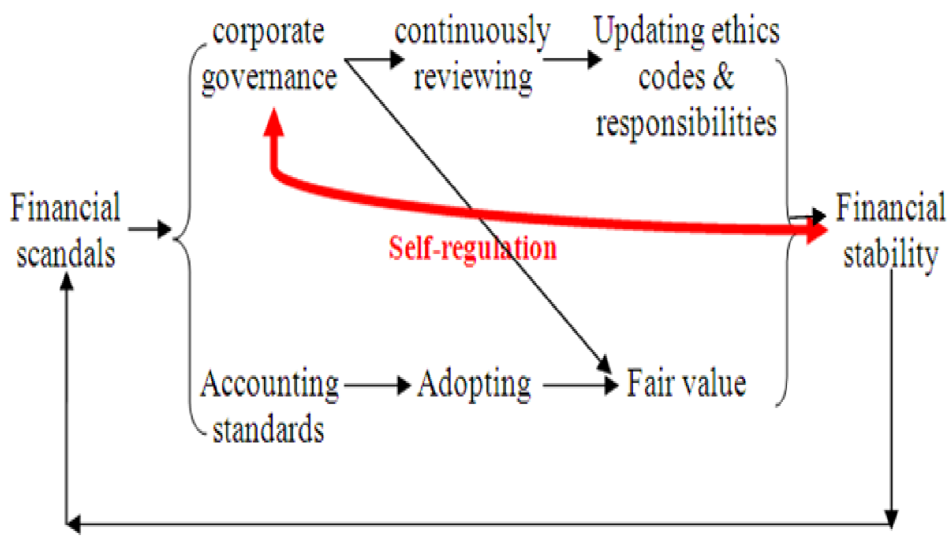
case of re-recognition hedge item retroactively by amortized cost and derivatives by fair value.

- The company needs to determine the tax affection and supervisory authorities when IFRS 9 is applied. That means changing in measuring method lead to changes in net profit and loss statement of the period.

Conclusion

The crazy financial collapsing calls out all entities in business world to gather their efforts to breathe out through achieving stability in financial markets. That cannot be achieved without gaining mistrust in financial market and enhancing strong relationship between corporate governance and accounting standards (Shankaraiah, 2005). Accounting standards and their principles should be well-understood serving powerful corporate governance, because IFRSs are principle-based depend in their practices on management's judgments required ethical behaviors from managers to judge all stakeholders' interests. In other hand, the changes in accounting standards require time from companies to adopt and to understand these changes otherwise these changes will be useless and leave the door open for more corruption ensuring that all regulatory entities are part in convergence implementation with IFRS. In meanwhile, necessary regulations are issued to strengthen convergence with IFRS and to be completed correctly; for example tax-parity should assure on convergence and non-convergence accounts. Fair value as estimating method has clear objective of reflecting financial information clearly to be transferred to stakeholders helping them in decision-making. This information is used by new investors to determine the direction of company's performance in future. Also for employees, this information helps them to make decision to continue working in that company in case that their individual interests are going in same direction with other stakeholders' interests especially shareholders. This relation between corporate governance and accounting standards can go far than accounting evolution to involve in official accounting regulations such as tax legalizations; taxes have meaning far than achieved obligation from a company to government, it is that way to redistribute fortune to poor people, develop societies and protect environment meaning that corporate governance has its own way to communicate with accounting regulations.

Corporate Governance relation with Accounting Standards



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CHINESE PHOTOVOLTAIC ENTERPRISE STRATEGIC ADJUSTMENT IN ROMANIA

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Abstract

The huge invasion of Chinese products in Europe and the challenges of selling Chiness products in European Union generate iusses of strategic management presented as challenges need to be faced are behind this article. European Union regulations and Romanian business challenges have been pushed Chiness companies to modify their strategic management meeting these challenges. The article treates EU anti-dumping on Chinese solar PV products by concentrating on Chinese Photovoltaic Enterprise challenges through (SWOT) analysis and strategic adjustments for EU - Romanian market to understand new policy and to make new price strategy, to apply new investment strategy accordingly.

Keywords: Chinese Photovoltaic Enterprise, EU anti-dumping policy, Strategic Adjustment, Romania market.

JEL Codes: L10, L19

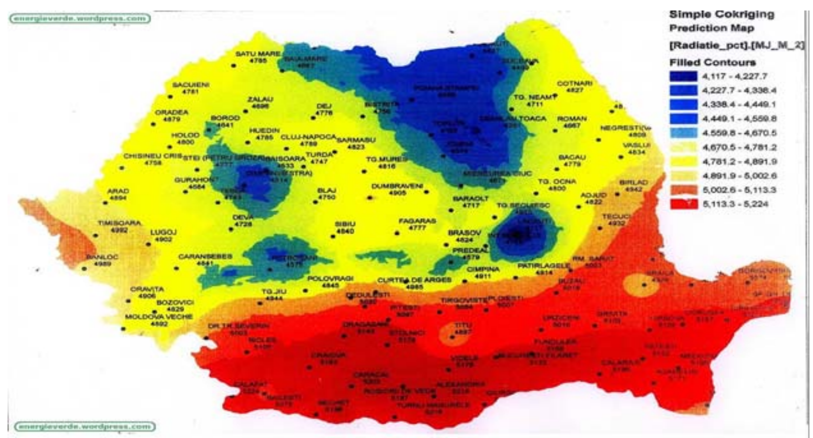
1. Introduction

Romania is situated in the European B sunlight, which gives the country a major solar potential waiting to be tapped. With 210 sunny days a year, Romania is eligible for annual energy flow between 1000 and 1300 located kWh / sqm / year.

Radiation level in Romania is very good compared to other countries with temperate climate, and differences, depending on geographical area, are very small. Solar radiation in Romania reaches maximum values in June, 1.49 kWh / msq/zday, lows were recorded in February, 0.34 kWh /msq/day. (wrote Green Report).

Romania is divided into three main areas of sunlight: the red corresponding to Oltenia, Wallachia, Moldavia and southern Dobrogea, about 1650 kWh/sqm/year, yellow zone including Carpathian and Carpathian regions of Wallachia, all of Transylvania, the middle and northern Moldova, Banat, 1300-1450kWh/sqm/year, and the blue mountain regions, 1150-1300 kWh/sqm/year. Romania is a new entrant in renewable energy sector, but is very most important market for Chinese Photovoltaic products. It's very necessary for Chinese photovoltaic enterprises to study the strategy on this market.

Source from: opcom.ro



2. EU anti-dumping on imports of Chinese solar panels

From the EU latest anti-dumping policy change on Chinese solar panel products; on 4th June 2013 the European Commission has decided to impose provisional anti-dumping duties on imports of solar panels, cells and wafers from China.

This decision follows a thorough and serious investigation and extended contacts with market players. As the market for and imports of solar panels in the EU is very large, it is important for this duty not to disrupt it. Therefore, a phased approach will be followed with the duty set at 11.8% until 6 August 2013. From August on the duty will be set at the level of 47.6% which is the level required to remove the harm caused by the dumping to the European industry.

A parallel anti-subsidy investigation on the same product is on-going, following a complaint lodged by the same complainant. It was initiated on 8

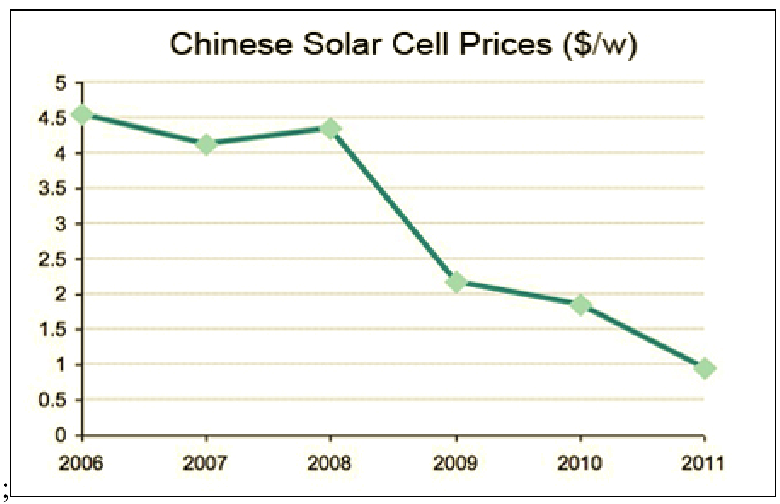
November 2012. Provisional anti-subsidy measures will be imposed by 7 August 2013. The decision on definitive anti-subsidy measures will be due in December 2013.

3. The influence of EU anti-dumping policy

EU new policy on Chinese Solar panel products influence seriously, not only to Chinese Photovoltaic enterprise, but also to EU solar panel enterprises. EU Strategy merges area "double-edged sword". These influences are divided into categories as the following:

➢ *The influence to Chinese Photovoltaic Enterprises:*

China's photovoltaic industry will be decimated, The Chinese solar panel price increase and the competitive advantage no longer exists, about 300000 workers will suffer unemployment, many IPO enterprises are facing delisting risks. For example, Big new energy a net loss of $20.8 million; Yingli new energy resources four consecutive quarter of losses, losses as much as $140 million in the first half of the year. Suntech delay report. The big new energy by continuous stock prices below the $1 received warning Nasdaq, suntech shares since late August also continues to below $1.

;

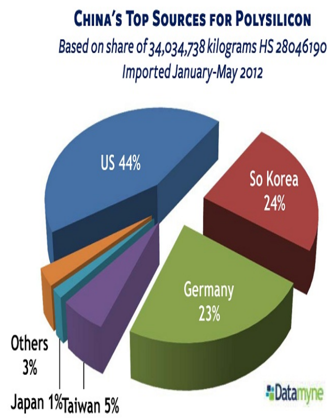
Source from: soalrcellcentral.com

➢ *The influence to EU solar panels enterprises*

First, the solar industry will hit Europe itself. Although to impose anti-dumping duties on Chinese photovoltaic battery products can let a few

European photovoltaic battery manufacturers benefit from it, but the raw materials needed for the solar panels made in China, most of the technology and equipment are imported from Europe and other developed countries and regions.

Data show that in 2011 China only from Germany, imported $360 million worth of silver paste, imports of polysilicon and $764 million. In recent years, China has accumulated from Germany and Switzerland and other European countries, purchasing about $10.8 billion of production equipment. EU raise anti-dumping flag, will hurt most European companies within the industry chain, and pay a high price.



We can see ***(the conclusion / result of chart say that Germany ...etc)*** from chart blew that Germany is the 3rd import sources of China for polysilicon in 2012.

Source from: datamyne.com

Second, it will hit the European solar energy users, including ordinary farmers. If Europe will be outside a block of high-quality low-cost photovoltaic (PV) products in China, Europe a large number of solar energy consumers will pay a higher cost, damage the vital interests of the ordinary people.

Third, it will have a negative impact on European energy security and energy strategy. As is known to all, the EU needs to import about half of its energy, and energy has been a "soft rib", which restrict the development of the EU economy also taste enough Russian "expired" over the years. If without the high quality and low price of solar products in China, the European Union promote its energy strategy will be overshadowed.

Chinese PV solar panel manufacturers face the dilemma is: The context of the global economic downturn, Europe and the United States PV market a large number of financial subsidies difficult dimension to continued decline in market demand; Europe and the United States on the forthcoming or have been identified by the Chinese manufacturers "double reverse" measures, further aggravated inventory; China's PV market is very small, basically rely on overseas; Many local governments do not have the science, industry market mind for achievements, for example, Ukraine the yarn and fiscal revenue, take "racking our brains "approach blindly given land, capital, tax and policy support for the photovoltaic industry, but in China the development of a large number of technical level is not high, small, high energy consumption enterprises, thereby disrupting the market price.

4. The Strategic Problem of Chinese Solar Panel Enterprise

By facing the hard situation that how to reacting on EU new policy, Chinese solar panel enterprises become to realize and analysis their strategic problems. Here of study result.

4.1 Enterprise vision is missing or not clear

Enterprise vision is missing or not clear, the vision can help the enterprise most guidelines, aggregation, and motivate employees. In the 1990 s, as the change of business environment, enterprise vision to further enhance the importance of strategic management, the so-called vision management --, combining with the personal values and organizational purpose, through the development vision, aiming at vision, three steps to carry out the vision, to build a team, organizational success and organizational power maximization. Vision management pay more attention to emphasize the core values, mission and level of organization of a grand vision for enterprise reform and the development of the long-term incentive, pay more attention to the future of the strategic orientation and long-term effect.

Establishment and effective implementation of the enterprise vision is the key to success. The strategic choice for enterprise transformation period, without vision, will be endless arguments between employees, not only a waste of time; it will also be a serious blow to morale. Adapted to vision do not make the adjustment or not fully communicate in the organization, employees unless sure that transition is likely to succeed, even if to also will not change. If combined with business executives because don't want to deal with difficult people and things, duplicity, before and after the transition period to the enterprise change plan more devastating.

4.2 Inspired to overestimate their own advantages

The strategy formulation process to determine the main problems are: enterprise into what kind of new industry? Give up what kind of industry? How to configure the resources? Expanding the scope of the market? Whether to merge or establish joint venture? How to prevent the takeover by your competitors? No enterprise has unlimited resources, strategic planners must be determined in the choice of strategy, in which a strategy can make the company achieve maximum benefits. Strategic decisions will make the company in a long period of time with a particular product, market, resources and technology. Transitional companies, often made certain achievements in the field of the original, often appear when in self-examination in deviation, like based on the thought of strengths to form a strategic, and ignore the point -- really accord with the advantage of the strategic objectives should be based on the enterprise do good place than its competitors. Different company whether needs to choose a different allocation of resources? Many managers at the beginning of the enterprise transformation, does not establish a sufficient sense of crisis, not overestimated the power of promoting organizational change themselves, but also underestimate the difficulty of motivated employees leave comfortable environment, lead to the deteriorating physical anxiety mixed with employees, strengthened the change action sense of rejection.

4.3 Mismatch of short-term tactics and long-term strategy

The short-term strategy and long-term strategy of balancing of interests, to enterprise's development is very important. Under shareholder or top managers get rich quick enterprises pursuit profit, often lead to enterprise strategic myopia, focus too much on short-term gains and losses. Short-term strategy called phase within the management goal is more appropriate, but short-term business objectives must cater to the long-term strategic objectives, to stand in a certain height, accord with the strategic development of the enterprise direction is determined. In this way, enterprise whether needs to change, which can guarantee the continuity of the target. For example many appliances manufacturing enterprises, which want to transition strategy, namely from the production processing enterprises into a technology research and development enterprises, to become the industry leader of the latest technology, which developed in technology research and development, product quality long-term strategy accordingly. To win in the short term, however, the maximization of market share, the pursuit of relative advantage, and is willing to take the price war strategy, care research and development, product quality is so intertwined with long-term strategic link, lead to enterprise short-term tactics and long-term strategy does not match. Not only strategic vision no goals. Enterprise transformation usually takes a long time, for most people, if you couldn't see the future can have half a year or 1 year can be called a small milestone in harvest, often give up goals, even become a target of opposition. Transformation of many failures, general plan and phase change system target, also no real motivation, change of disillusionment like castles in the air.

4.4 Error define on enterprise core competence

Core competence is not a single technology or process equipment; it consists of various capabilities, including the technical core capacity, organization core strategic ability, guiding core ability, etc., is a combination of a series of complementary skills and knowledge within the organization, one or more of a business can achieve the leading level in the field of competition. Core competence is not limited to a moment of success, but on a long time to face all kinds of changes of ability to adapt. From strategic perspective enterprise core ability, can promote the enterprise scientific and comprehensive construction and improve the system of sustainable development.

Enterprise transformation, in the process of strategy formulation, if can't sort out its core ability, will be enterprise's strategic direction to the astray, even will run for a long time down to form core competence to overthrow, and to define again. Business scope limited to the core city of Courier companies, for example, survive in part because the business a long time, in some clients with safe, fast word of mouth, if companies failed to see its own core competence, under the pressure of competition to provide logistics enterprises, start construction, acquisition of long-distance freight enterprise warehouse, it would be extremely risky. Similarly, when the company's business scope includes only the nationwide or neighboring countries, from a global perspective to define the core ability is also very dangerous.

4.5 Strategy implementation lack of driving force

Strong executive ability can guarantee to implement strategic intent, to complete the intended target, the enterprise strategy planning into benefits and results. If Transformation enterprises lack of strong, and has a weak leadership team, strategy implementation and control, makes the strategic planning. By one or several people's strength, can't against the traditional system and the inertia. He was hesitant leadership team, also can't promote transformation of enterprise. Even some enterprises "music", let the practitioner. In an enterprise, the most important factors influencing strategic is the stability of the leadership decision-making, because different people may have different objectives on stage. Enterprise transformation is often groping forward, if the enterprise development direction and the target is always changing, it is easy to appear problem.

4.6 Change but without strategy

Many managers believe that they made the strategy, in fact is not, at least not a strict, satisfy the economic meaning and basic definition of strategy. Because of policy loopholes and law is not sound, some speculators make opportunistic, gained huge profits in a short time later, formed the bad habit of pushing, ignoring the rules, they believe that success depends on is speculation and luck, rather than standing on the strategic point of view to look at the development of enterprises. This is our country in recent years appear constantly shooting star class enterprise.

Have a good strategy, get twice the result with half the effort; There is no good strategy, the result of the hard work is wasted effort. Enterprise managers based on good intentions, raise some unrealistic slogans and target, basic is not a strategy, and because it does not put the enterprise future the which way and how to get clear, will forever stay on the stage, make enterprise operation is always lack of a clear goal.

5. Chinese solar photovoltaic enterprises strategic adjustment

In the past, Chinese export growth mode is extensive, which is not appropriate for nowadays business, especially when the trade policy become hard for Chinese enterprise, the only way is to adjust old inappropriate strategy. With regards to Chinese solar panel enterprise this change is imperative under such a circumstance.

✓ Change on Export growth mode, from extensive to intensive.

Extensive economic growth mode means in factors of production, structure, efficiency and quality under the condition of invariable technology level, rely on the expansion of production factors investment and economic growth. The essence of the export growth mode is the number of growth as the core.

Intensive economic growth mode is by improving the quality of factors of production and efficiency, depending on the optimum combination of factors of production, through technological progress, improving the qualities of workers and improves the utilization rate of capital, equipment, raw materials and the implementation of growth. The essence of the economic growth mode is to improve the quality and economic benefit as the core of export growth. Extensive and intensive export growth relies on the perspectives of management. If from the scale of production expanded the realization way of reproduction can be divided into the expansion of denotation and connotation of expanded reproduction.

Change from the extensive to intensive economy relatively. Intensive export growth mode is to point to in the scale of export is constant, on the basis of adopting the new technology, new technology; improve equipment to increase production, increase science and technology content, the economic growth mode is also called the connotation type growth mode. In contemporary, advocate a intensive economy. Such as the development direction of animal husbandry in northeast China, is the development of intensive.

✓ **Change on Multinational business model, from trade patterns to outward foreign direct investment.**

First of all, from the perspective of the export as the international economic situation deteriorated and yuan appreciation pressure frequency, export trade obstacles and barriers faced by is also increasing, relying on exports is not the optimal choice of enterprise internationalization in our country. Before a lot of export enterprises, once encounter higher export destination countries technical barriers to trade, will be forced to bypass trade barriers through foreign investment.

Second, China's foreign direct investment scale has been on the low side, should have the larger development space in the future. With export barriers, many companies began to through the foreign mergers and acquisitions, access needed for the development of brand, technology and marketing channels and related resources, it will promote the development of Chinese enterprises foreign direct investment.

Third, non-equity arrangement with the independence and flexibility, would make it has a more broad space for development in the future, with the help of a non-equity arrangement into the international division of labor system and related technology and experience, will also become the important way of our country enterprise international operation.

✓ **Chinese enterprises foreign investment has three big difficult problems.**

Here with my SWOT analysis chart as blew.

Internal Environment	Strength	Weakness
	1. Low cost of solar panel price compare with other countries. 2. Strong production scale and production ability to meet market needs. 3. Good cooperation and customer relationship with EU local consumer in past years.	1. Financing difficulties from overseas direct investment 2. Lack of multinational culture knowledge and management experiences.
External Environment	**Opportunity**	**Threats**
	1. EU solar panel enterprise can't meet the market need on the whole volume. 2. EU solar panel price do not have competitive advantage compared with Chinese products.	3. Not familiar with the local law. 4. Lack of competitiveness of JV.

Firstly is financing difficulties, the Chinese enterprise's own capital to outside, no Chinese Banks follow up; At the same time it is hard to get credit each other financial institutions. A large number of private companies in overseas financial activities are very difficult. Now, the administration of foreign exchange within the ongoing qualifies for credit, also bring a considerable amount of debt.

Second, investment destination countries don't understand the laws, regulations and culture. A large number of enterprises overseas investment has great blindness think home is bad to do, go out to do, actually go out to also do not wide. We need like attaches great importance to the export value of foreign direct investment. Exports and foreign investment is a national foreign economic development of the two wheels, when economic development to a certain extent, the export inevitably turned to foreign investment. We still need to strengthen the system construction, set up similar overseas investment promotion bureau of such institutions, overall coordination of Chinese enterprises foreign investment in the face of all kinds of laws and cultural issues, and help enterprises to go out more quickly.

Third, Chinese PV enterprises lack of competitiveness of the joint venture. Chinese enterprises' overseas investment is not based on ownership advantages of competition, hoping to find industry competitive advantage. But in fact, found out the market difficult do, technology is difficult to learn. Now a large number of private companies in overseas are difficult.

6. China Photovoltaic enterprises strategic practical case in Romania.

We are going to present some real case studies happened in Romania market, which Chinese solar panel enterprise are trying to apply new practical strategy. Here with two examples:

- **Phono Solar and Power One signed global strategic cooperation agreement on Oct, 2012**

(PV - Tech on October 26) Phono Solar and new energy, efficient energy conversion and Power management solutions provider Power One signed a strategic cooperation agreement in the world, with the signing as a turning point, the two sides will materially for global strategic cooperation.

According to introducing, in the whole process of strategic cooperation concept of “resources effective integration” becomes the consensus. First is the integration of product lines and marketing channel. Agreement, on a global scale, according to the requirements of different region and the marketing channel, Power, One is to merge its photovoltaic inverter products: set of string type inverter, centralized inverter, the micro inverter, junction box and monitoring system and the Phono Solar modules and photovoltaic system flexibility to integrate auxiliary materials sales.

Followed by the two sides in research idea, research and development information, means of research and development, and product positioning on the cooperation and common development of targeted products, implements the integration of research and development strength.

Third, the project has integrated resources and financial power. In both existing and future of photovoltaic power station project, the resources sharing each other project. Under the same conditions, both sides treat each other as priorities of key equipment suppliers. At the same time, the two sides to the possibility of financial cooperation in the photovoltaic power station for the constructive.

Each quarter in the end, the two sides held a meeting, on global and regional market needs and trends, the regional sales performance, product concept and regional technology transfer policies and regulations, etc and in-depth exchanges and discussions on a regular basis. The Power One and Phono Solar established trust each other through long-term cooperation, and to agree on enterprise culture and the development idea, this is the important foundation of our cooperation. The Power One and Phono Solar, the two outstanding companies today can achieve strategic complementary cooperation, to promote each other's market share is very positive significance, at the same time I also believe that it will make both parties onto a new stage of development.

The success of the strategic cooperation agreement signed, not only for Phono Solar brand value of affirmation, is also a Phono Solar, adhere to the embodiment of "transverse integration of supply chain strategy. Through this strategic cooperation, both sides a full integration of superior resources, not only can enrich and expand marketing channels, and product line, effectively reduce the hardware cost at the same time, bring tangible benefits for the terminal customers.

➢ **Lightway Solar invest in Solar Park in Romania.**

Lightway was founded in 2008, driving as good quality products manufacturer, professional solution provider and outstanding customer server, has been recognized as a world-leading international company, and growing steadily. Through vertical integration, the company invests in quality solar projects and develops distributed generation, has successfully accomplished solar projects of all kinds in a wide range of markets, including Europe, North America, China, Australia and Asian Pacific regions. In the view of a sustainable development, Lighway is dedicated to meet the energy demands of a changing world.

In March, 2012 Lightway Solar gained a foothold in Romania after acquiring Romanian company Sun Garden Colibasi, in a deal worth EUR 2.49 million. Ligthway solar opened branch office in Bucharest in Sep 2012. Chinese Lightway Solar, a photovoltaic manufacturer, plans to invest around EUR 76 million in developing a photo-voltaic park of 50MW in Southern Romania, Giurgiu County, reports Agerpres newswire.

7. CONCLUSIONS

By facing the Chinese Photovoltaic enterprises have to recoganize the lastetst situation and change the export mode of the company strategy from long term perspective. More important is to choose the International direct investment, which would be a best solution from a long run, but Chinese enterprises have to conquer diffculties from the culture and management conflicts which both from law legistlation and political policy risk assement in Romania. There are so many Chinese soalr panel enterprice except Phono and lightway has already have many years export expereicen with Romania local comsumers, now there are trying some other cooperate model , like develop solar park together by way a seting up SPV as a joint venture, Chinese solar panle enterprises have strong advantage on product, which could be considered as capital in the joint venture business. Make all advantage fully acting a role in direct investment in Romania market is a deep thought and practice requirement for all Chinese soalr panel enterprise who want have long win-win strategy in Romnania.

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THEORIES AND MODELS OF FISCAL POLICY

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Abstract

Within the paper "Theories and models of fiscal policy" we made a presentation of the main fiscal theories elaborated by the renowned representatives of the Physiocratic School, of the classic English School and last, but not least, the neoclassic approach of the aforementioned in the vision of Frank Ramsey and Arthur Laffer.

The purpose of the paper is to highlight which was the contribution of the fiscal theories and models formulated by scholars and to what extent they contributed to developing the economic society or to improving the quality of the research activities suitable to the field.

Keywords: fiscal system, national income, national wealth, simple reproduction.

1. Introduction

The need to know and understand about the way in which the fiscal system operates turned into the main concern of the scholars once the first theoretic approaches attempted to explain the utility of taxes, of establishing their optimum level and some aspects about their gathering and collection.

In this context was highlighted the role of fiscal policy in establishing the limits about fiscal duties, the differentiation criteria about the "fiscal treatment depending on the ownership firm, legal form, economic branch, geographic area or headquarters of the economic agent"[1]

Thus, is noticeable the contribution of the Physiocratic School through its representative François Qesnay who, next to other remarkable Physiocratic scholars have "analysed the economic activity under the form of some continuous flows of incomes, considering that they could represent various circuits based on a synthetic picture. At the same time, they developed the first model of simple reproduction of social capital at national level"[2] and, due to this new approach, the Physiocrats, under the guidance of Quesnay were regarded as "founders of the mathematic economic school".

Another contribution brought to the development of fiscal theories into economic doctrines was marked by the liberal trend through the contribution of classic economists such as Adam Smith who analysed labour, nature and capital as essential components in shaping the national wealth, these representing the background for constituting the incomes of the state, or David Ricardo who became noticeable by formulating the quantitative theory of money, or the dynamics of the financial rent.

Still, in completing the studies developed during classicism, the neoclassic synthesis of the fiscal theory introduces new concepts, such as the arithmetic and economic effect formulated by Arthur Laffer.

2. The State and taxation in the approach of the Physiocratic School

The Physiocratic School represented by a group of French economists contributed to the development of modern capitalist economic analysis by introducing a series of innovative ideas in the economic theory. Thus, the new ideas promoted by the Physiocrats aim: the natural order and natural laws of economy, the shift in explaining wealth from the sphere of circulation into the one of production, or reproduction and balance analysis at the level of the national economy.

In the opinion of Physiocrats "the natural order and natural laws of economy" represent the backbone of their thought, so that the development of society follows a natural course, obviously provided for by Divinity with the purpose of ensuring "happiness" of mankind, reasoning representing only one of its features. In arguing this concept, Quesnay stats that "each

[1] Bistriceanu GH., Popescu Gh., „*Bugetul de stat al României*", Editura Universitară, Bucureşti, 2007, pg. 323;

[2] Popescu Gh., „*Evoluţia gândirii economice*"- ediţia a III-a, Editura Academiei Române - Bucureşti, Editura Cartimpex – Cluj, 2004, pg. 102;

human being must obtain the highest satisfaction with the smallest possible expenditure this is the perfection of economic management. And when each does the same, this order instead of being disturbed shall be, to the contrary, ensured." Consequently, the conception about the "natural order" and "natural laws of the economy" created by complying with the ownership and freedom principles, and the harmony of interests constituted the essential argument in defending economic liberalism against mercantilism.

Another topic subjected to the research of the Physiocrats was represented by the wealth and its source in production, and closely related to that in finding a new definition for the net output.

The hypothesis of the theoretical construction elaborated by Quesnay was supported by the fact that wealth does not consist in money, but in the useful goods that can satisfy various human needs and, in conclusion, just one branch of activity was apt to ensure "consumable goods, without altering the source where they come from - agriculture."[1]

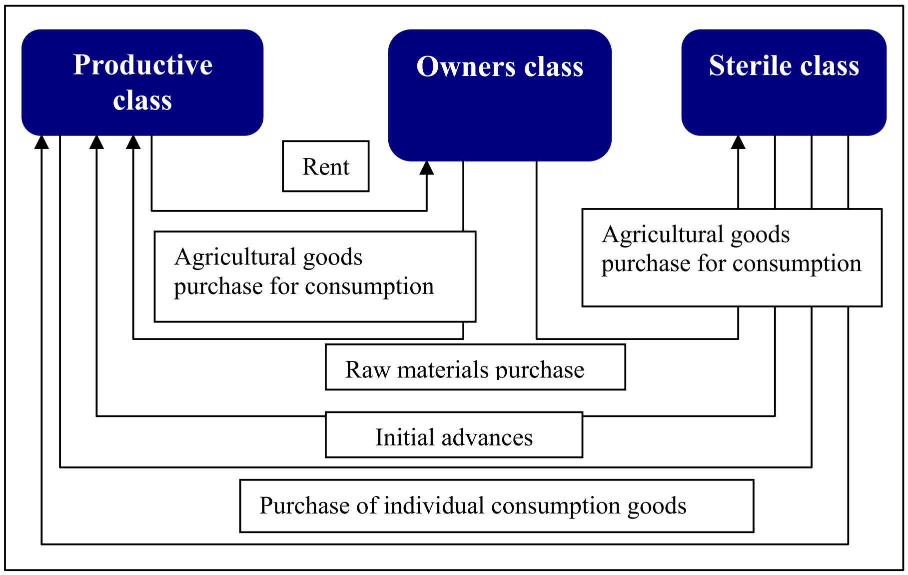
But agriculture implies two production factors: nature and labour, yet in the opinion of Quesnay only nature can be regarded as a source of wealth, the labour representing the simple contribution of the human being in changing goods created by nature. To support this concept, F. Quesnay appreciated that wealth is constituted from: "natural wealth", in other words subsistence goods and raw materials, and "industrial goods", hence manufactured goods, but industrial wealth implies creating natural wealth, hence the true and unique wealth is the one which "is yearly reborn from Earth".

This current of thought – which did not last but three decades (1750-1780) has still played an important role in the history of economic theory and practice.

Among the characteristics that establish the place of Physiocrats in the long-term history might be reminded also the one that they were the first to analyse the economic activity under the form of some continuous flows of incomes – shifting from one population class to another – and have considered that they can represent the various circuits by a synthetic, schematic picture – "The Economic Picture" which is represented in Figure 1.

[1] Popescu Gh., *„Evoluţia gândirii economice"*- ediţia a III-a, Editura Academiei Române - Bucureşti, Editura Cartimpex – Cluj, 2004, pg. 106;

Figure 1 F. Quesnay's Economic Picture



Source: Lupan M., *„Istoria gândirii economice"*, Universitatea Ştefan cel Mare, Suceava, Fcaultatea de Ştiinţe economice şi Administraţie publică, 2009, pg. 18-19;

Also, the Physiocrats have elaborated the first model of simple reproduction of social capital at national level, reason for which some followers considered them "the founders of the mathematic economic school"[1].

Thus, in the thinking of the founder of the Physiocratic School the economic circuit was realised just in real terms as different from mercantilists who developed a monetary theory, the moneys having the significance of an exchange mean, and not of a component, or source for wealth formation.

[1] For the first time in the year 1890 the professor Stefan Bauer (the one who discovered Tableau economique) in the article published in „Journal of Quarterly Economics" made such considerations. Thereafter, in 1896 August Oncken (1844-1911) wrote in the "Economic Journal" the article *Physiocrats as founders of the mathematical school*, and Charles Gide and Charles Rist appreciated that "Quesnay resorted to arithmetic calculations for explaining his picture and that gives him the right – to a certain extent – to be regarded as the precursory of the mathematic economic school". Subsequently Alois Schumpeter called the Physiocrats "the founders of econometrics";

The conception of the Physiocrats about the repartition of the social product correlated with the necessity of forming income sources at state level constituted the premises for the Physiocrats of formulating a new original theory about taxation.

From the viewpoint of the role of state in economic life, Physiocrats consider that the national income has as single source the net product because in their opinion taxation of the net product does not affect the conditions of simple reproduction. Following this conception, their vision is developed into elaborating new theories much closer to the economic reality based on the idea that "the state budget feeds through several channels and that in history there never existed a system of flat taxation, but one of multiple taxation"[1] .

3. Contribution of the classic English School in developing fiscal policy

In developing the theory, the freedom of competitiveness represents the background of organising social relations. Also, A. Smith noticed that between social order and economic order there is a series of contradictions, due to individual interests, but accepts it by maintaining that "freedom of action of individuals is the condition of any progress...and injustice triggered by economy's freedom is not as high as it seems." [2]

In this context, the reasoning at the basis of the principle of "the invisible hand" takes into consideration the issue of market prices' oscillation, due to – according to the opinion of A. Smith, the author of the masterwork "The Wealth of Nations" – the relationship between demand and supply of wares.

They consider that if on market supply exceeds the value of demand, then the prices shall register a decrease, fact which shall influence production, as it will be discouraged. Under the situation in which demand is superior to supply, then the prices shall register an increasing trend, and thus production will be stimulated. As result, only under these conditions the balance is achieved spontaneously – by means of competition and not by intervention of the authorities, ensuring thus social progress, and each individual contributes involuntary to achieving the general interest.

Analysing the researches made by Adam Smith, it might be concluded that for obtaining welfare and ensuring the balance, the market

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[1] Popescu Gh., *„Evoluţia gândirii economice"*- ediţia a III-a, Editura Academiei Române - Bucureşti, Editura Cartimpex – Cluj, 2004, pg. 120;

[2] Văcărel I. Bistriceanu GH., ... *„Finanţe publice"*, ediţia a VI, Editura Didactică şi Pedagogică, 2007, pg. 132;

must operate freely, without the direct involvement of the state in the economic life.

Starting from the premise that the state has only responsibilities pertaining to protecting and defending the interests of the society, together with the development of the economic-social plan this responsibility becomes increasingly costly; as result the expenditures register an increasing trend becoming increasingly more difficult to assume, fact which triggers the necessity of supporting them by the general contribution of the entire society, a contribution materialised under the form of taxes and duties, that would answer to certain requirements and principles.

In this context, it is noticeable the particular contribution brought by A. Smith to developing taxation, as he used for the first time in the economic theory and practice, the fiscal policy as instrument of stabilising the economy, formulating four principles that should be pursued in establishing taxes, principles that are maintained even today, as well as the role of public finances.

Hence, in the respective period the role of public finances was the one of ensuring the procurement of necessary resources for the maintenance and functioning of public institutions, and the methods used for the formation of these resources were conceived as having at their basis the principle of fiscal neutrality, which in the perception of the Scottish origin classic signified "the indifference of taxation against the economic structure of the production means,[1]," so that cashing of taxes should not affect the mechanism of prices' formation, the economic-social relations or the balance between the incomes and expenditures of the state, considered as " a fundamental requirement of well management, the key of public finances"[2] .

4. Neoclassic synthesis of fiscal theory

In the neoclassic theory of taxation, emphasis is laid on finding an efficient way of cashing taxes. During this period is remarkable the contribution of Frank Ramsey who considers that "the highest taxes must be applied to those entries or exits that have the highest inelasticity of the price

[1] Bistriceanu GH., Popescu Gh., *„Bugetul de stat al României"*, Editura Universitară, Bucureşti, 2007, pg. 328;

[2] Văcărel I. Bistriceanu GH., ... *„Finanţe publice"*, ediţia a VI, Editura Didactică şi Pedagogică, 2007, pg. 28-29;

in relation to supply or demand"[1], thus obtaining an increase of the incomes without registering significant efficiency losses.

From Ramsey's approach is noticed the importance of finding an optimum way of establishing the taxable matter and of the taxation amount with the purpose of highlighting the main functions that must be fulfilled by the fiscal policy in view of increasing public incomes, considered as "the most important source of financing public expenditures even if they are not the sole financing sources of the latter"[2]

By adopting the fiscal-budgetary policy promoted by Ramsey, the government establishes the taxation rates of incomes from labour and used for covering public debt and financing governmental consumption.

Short time after the studies developed by Ramsey, "the father of the economy on the supply side", Arthur Laffer made himself noticed on one hand based on the opinion according to which the diminishment of the taxation rate implies a diminishment of incomes from taxation, so that the arithmetic effect is obvious and, on the other hand, the diminishment of the taxation rate can determine an increase in labour and production, fact that would lead to increasing public incomes, hence the emergence of the economic effect.

Starting from the idea that „ What is simple and small is nice and beneficial"[3], referring to diminishing taxation, he developed a theory regarding the amplitude of the taxation rates.

The economist A. Laffer, considers that 'beyond a certain ceiling of taxation rates, any increase of the latter generates diminishment of collected budgetary incomes, being necessary – as consequence – the diminishment of the respective rates for obtaining an increase in the budgetary incomes."[4]

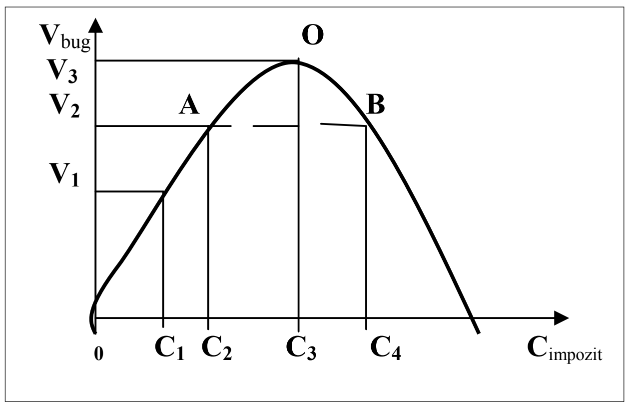
In supporting his theory, by using mathematical reasoning based on the model of the market economy of the United States, A. Laffer "built" a curve with the same name, through which he proves that when an increase takes place in the taxation rates, an increase is obtained for fiscal cashing, yet only up to a certain level, called the maximum or optimum point, beyond which any increase of the taxation rate shall generate a decrease in

[1] Samuelson P.A., Nordhaus W. D. , *„Economie politică",* Editura Teora, Bucureşti, 2000, pg. 380;
[2] Duca A., *„Miraculosul triunhi al impozitelor"*, Editura ASE, Bucureşti, 2007, pg. 67;
[3] Laffer A., *„The Laffer Curve: Past, Present, and Future"*, June 1, 2004 , The Heritage Fundation, USA, http://www.heritage.org/research/reports/2004/06/the-laffer-curve-past-present-and-future;
[4] Văcărel I. Bistriceanu GH., ... *„Finanţe publice"*, ediţia a VI, Editura Didactică şi Pedagogică, 2007, pg. 653;

collected budgetary incomes, so that the American professor succeeds in highlighting the correlation between fiscal incomes of the state and the taxation rates.

In the specialised literature of public finances is found the classic form of the Laffer Curve (the reversed form of letter "U", or the portion from quadrant I for the coordinates' axes xOy of a second degree function 2: $f(x) = ax^2 + bx + c$), cu $a < 0$) (Figure 2.). Nevertheless, various experts in the field, among which Malcolmson (1986) maintain that discontinuities are possible for the cashed rates of taxation.

Figure 2. Laffer Curve



The analysis of the diagram from Figure 2 highlights the fact that under the conditions of a progressive increase of the taxation rate from C_1 to $C_{3,}$ a superior volume is obtained for budgetary incomes - I_1, I_2 and I_3, yet the increasing trend is maintained up to the level of the point of maximum – "O", and from this point on the constraint effect becomes predominant, as compared with the income effect, as result any subsequent increase of the taxation rate, in the graph point C_4 shall generate a diminishment of the incomes of the state.

In conclusion, tax payers under the influence of the fiscal burden pressure shall resort to illicit practices, for avoiding the payment of fiscal duties, fact that will trigger a diminishment of the economic growth rate and, consequently, a decrease in budgetary incomes.

5. Conclusions

The permanent process of redefining the fiscal theories and models has taken various forms in the economic theory and practice in time. So that terms such as wealth, production or defining the net product were the beginnings for outlining the first elements of a fiscal policy that will become the main instrument for maintaining macroeconomic equilibrium.

The clsassic and neoclassic approach of the economic doctrine about taxation, correlated with the analysis of macroeconomic indicators, as well as of the main mathematical models regarding fiscal policy have underpinned the perfect role played by taxation in the process of economic growth researched by the representatives of the Physiocratic School or of the classic English School, and subsequently in developing the theory of the general equilibrium which had as promoters John Maynard Keynes and Paul Anthony Samuelson.

Currently, the outcomes of formulating and applying the fiscal theories and models was materialised in the delineation of the action sphere of fiscal policy, respectively the repartition process of the "relationships that emerge in the process of public funds' of financial resources formation and direction in view of satisfying social needs"[1], and in establishing the objectives pursued systematically that can influence all other phases of social reproduction, among which we remind production, exchange or consumption.

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[1] Văcărel I., Bistriceanu GH., ... „*Finanţe publice",* ediţia a VI, Editura Didactică şi Pedagogică, 2007, pg. 110;

IMPACT OF INVESTMENT IN HUMAN CAPITAL AND RISKS ARISING FROM THESE

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Abstract:

This paper aims to examine the importance of investment in human capital in Romania and the European Union in order to establish the main developments in this regard to consider the risks that we take when we invest in people who are the future of human society.

Education is the starting point of investment in human capital formation, which is considered the part of the wealth of any nation. This is the main argument to consider that labor resources are based on theories of economic growth and development of any management policy models of labor markets.

Key words: *labor market, employment, investment, human resources, development.*

JEL classification: *J01, J08, J18.*

Introduction

At global level, the role of the intellectual labor, which means that the resource assessment work will take account of increasingly more necessary skill level, such as:

- ✓ level of training,
- ✓ skill level,
- ✓ experience,
- ✓ ability labor.

To differentiate between "human capital" and "intellectual capital" we should take into mind that the latter is the sum of human capital and structural capital, according to Edvinsson and Malone (Edvinsson, Malone, 1997), which considered that this refers to the experience of intellectual capital applied to the organizational to organizational technology, customer relationships and professional skills that give the company competitive advantage in the market. Intellectual capital is the source of wealth for individuals and for organizations.[1]

Economic studies conducted to date, highlighting the expansion of scientific and technical knowledge contribution to labor productivity growth. If we think of Japan's remarkable results obtained in the postwar period, Salrero Okito, one of the creators of "miracle" Japanese appreciate that one of the reasons for the rapid development of his country was "an abundance of cheap labor, good quality and Education able to cope with sophisticated technologies. "In fact, employment, education and education have been priorities of Japanese society.

Therefore, as Romania go forward in developing this new economy, it is obvious that it is particularly necessary skilled workforce able to make optimal use of new technologies, and flexible, adapting easily to new situations. For this training in computer science have become very common in companies, according to statistics. Because in this ever-changing economic environment the emphasis is on applying ideas and innovation, only companies that will have the ability to adapt to new concepts and technologies will survive in the information society. The training is required of managers and staff, implementation of successful economic practices, policies to encourage economic activity and privatization of state firms that can not withstand the market. But to do so requires investment in human capital, and unfortunately our country can not boast about them.

The analysis of the Human Development Report follows that Romania is among the lowest budgetary allocations for education between the European Union member states. At the same time, the budget for research and development is insignificant and therefore, Romania has an estimated 900 researchers / million inhabitants while Sweden has six times as many people working in the field of research and development, and Iceland eight-fold. What is worse, is that of local officials for more than half do not have a university degree and the number of students reported to the population of Romania is very low compared to other European Union

[1] Andreea - Monica Predonu, "*The Necesity of a Qualified Workforce*", Magazine "*Knowledge Horizons*" nr.1-2/2012, vol IV, ProUniversitaria Publishing House, Bucharest, pp. 117-120.

member states. Therefore, our country has the lowest education indicators in Europe.

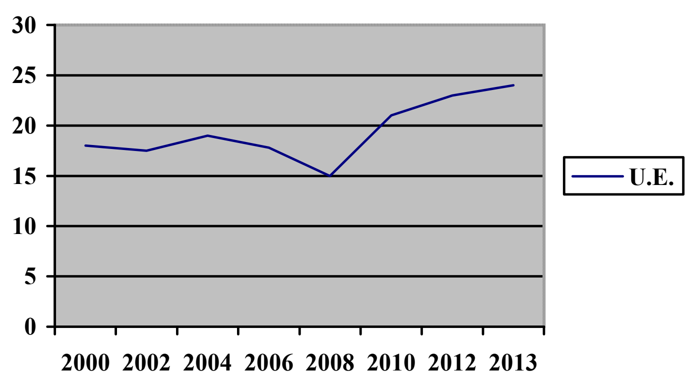
The concept of risk can be defined: "The risk is often associated with negative outcomes, although there is the possibility of positive consequences, people usually associate with the risk of losing". [1]

An important role in avoiding the risk that young people in the Member States of the European Union to become a "lost generation", they have specific programs of education and training, including internships and training programs of high quality in the framework of the European Union "European Youth Guarantee".

NEET represents young people who are not in employment or education or training. In the European Union people NEET are considered one of the most problematic categories in the context of youth unemployment[2]. Therefore, the future of Europe depends on 94 million young Europeans who are aged between 15 and 29 years. If they do not invest in these young people, the risk of unemployment among young people grow increasingly more. In figure. 1 shows the rate of youth unemployment in the EU, namely in the 28 Member States.

As we know, the European Union (EU-28) has 28 Member States from 1 July 2013, when integrated Croatia.

Picture no. 1 - Youth unemployment rates from EU-28, January 2000 - July 2013



Source: Youth unemployment rates, EU-28 and EA-17, seasonally adjusted, January 2000 - July 2013.png

[1] Ana-Maria Dinu, Ovidiu Rujan, "*Technique foreign trade operations*" ProUniversitaria Publishing House, Bucharest, 2013;
[2] http://www.eurofound.europa.eu/pubdocs/2012/541/ro/1/EF12541RO.pdf

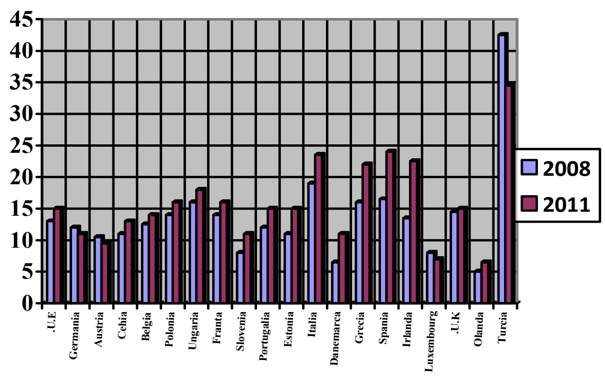
First, in Fig. 1 we can see that the unemployment rate among young people is increasing since the economic crisis hit us. How Ms. Cristina Bălăceanu said in his book "*Sequential approach of the Romanian economy before and after accession*", economic crisis is the turning point in the economic cycle when the expansion phase gives way to depression.[1]

But at the same time, the euro zone was maintained during this period of time a youth unemployment rate lower than the EU average, until 2012, when the rate of youth unemployment in the EU has been superseded by the Eurozone. Hence, the euro area has greater stability. All of this figure shows that the best time with a youth unemployment rate the lowest was in the years 2007 and 2008.

It is therefore very important to make investments in human resources to increase productivity and decrease unemployment, especially of youth. European Union Member States have a high rate of young people involved in professional programs. In 2011, this percentage was over 70% in Austria, Belgium, Czech Republic, Finland and the Slovak Republic. But most have not had more than 40% of students in such programs are: Estonia, Ireland, Greece, Hungary, Portugal and the United Kingdom.

Commission directs Member States to maximize the benefits of learning through training at work to facilitate the transition of young people from school to work. However, there are still many young people who are not in employment or education or training. In figure. 2 summarizes these young people and how their number has evolved during the years 2008-2011.

Picture no. 2 - Young people who are not in employment education or training (2008 and 2011)



[1] Cristina Balaceanu "*Sequential approach of the Romanian economy before and after accession*" University Publishing House, Bucharest, 2010, p.182

Sursa: http://ec.europa.eu/romania/news/25062013_investitii_educatie_ro.htm

Figure 2 shows that the European Union remains on average, that is not a special case in this area, such as, for example Turkey, with most young people who are not in employment education or training.

Therefore, we must realize that approximately 15% of young people aged between 15 and 29 years, the European Union, not in employment nor in education or training. But in Greece, Ireland, Italy and Spain, over 20% of young people were in this situation a few years ago. EU statistics show that the situation has worsened in 2012 for Greece, Italy and Spain.

For this reason, the European Union has agreed to launch annual report "An Overview of Education 2013," the Organization for Economic Cooperation and Development (OECD), which examines the education systems in 34 OECD countries, including 21 European Union Member States and Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia and South Africa. This report looks at the problems facing European education and EU Member States need to address working together and realizing the importance of policies aimed at modernizing education and provide greater opportunities for young people to study or following the training abroad.

Equally important are unemployed diversion programs to reduce their numbers and contribute to higher living standards. Also considered a target for developing countries aspiring to flexicurity labor market, and the rapid economic growth and joins global knowledge-based economy, encouraging the development of services sector is a key factor for national competitiveness. Expansion and diversity of services will be one of the main drivers of flexicurity labor market. Also in this area will occur and rapid changes, that a service will create another service and jobs will follow. Specialty practice has shown that the dynamics of new jobs created in the service sector surpasses that of a job loss due to the introduction of new technologies. This is intended to Romania promoted through employment policy (eg the Internet, which at first was intended only as an information-communication channel has expanded in the sale, purchase, auctions, more than that, many activities took mail, telephone and not the television). With regard to unemployment, they will have a positive future outlook.

The workplace of the future in the field of administrative and services will be integrated with the computer, covering phones and videophones connected to a smart grid. These terminals will process a quantity of information than ever before and will provide substantial support to those who work with such information. Services will be decisive in terms of employment in the future, as there is a major difference between the conveyor belt work or work carried out in a mine and a service activity, labor policies could benefit again fully exploiting this situation, the potential flexicurity. For example, one of the most popular places to be a specialist in online marketing.

But it is normal that these services require a certain level of education and training continues throughout life in all areas of activity, which requires adaptation and adjustment in the smallest details of the education system. However, from the perspective of economic development there are many reasons for developing economies to promote services. Since the expansion of this sector helps create national wealth, there is a direct link between high levels of GDP / capita and the intensity of services in an economy, especially due to the delay in the sector, which exceeds that of agriculture or industry. Moreover, in economies that put great importance on service people tend to "climb" up the social ladder in a much faster pace. Countries like Romania, which has great resources for professional and scientific workforce, have much to gain by developing this industry services.

A very important role in this context has the financial support of training and human capital accumulation does not only expenditures on education, but also training of the workforce. It has a much broader scope because it includes:

- a government spending on public goods supply,
- a population health,
- a public order and national defense,
- social protection,
- an environment,
- a pollution control etc.

Meanwhile, James Canton, says in his book "*Future Challenges. The main trends that will reshape the world in the next 5, 10, 20 years* ": In the absence of changes in education, more and more companies will turn to outsourcing to other countries to find talents endowed with the desired skills, thereby increasing unemployment in the United USA.[1]

So, since providing public goods is dependent on the state budget and the income thereof, taxation, that, according to income tax rates, goods

[1] James Canton, "*The challenges of the future. The main trends that will reshape the world in the next 5, 10, 20 years* ", Polirom, Science, 2010, pp. 118

and properties depends, ultimately, the size of resources distributed public funds for investment in human capital. This involves drawing a dividing line between empirical models of economic growth and employment work, promoted by the International Monetary Fund and the World Bank, which recommends practicing austerity budgets in public areas unproductive and other reference models, which recommends increasing government spending for training and human capital accumulation.

In addition to this demarcation, empirical studies on investment in human capital applied in certain states with a high population rate, such as Argentina, Brazil, India, and more recently in Central and Eastern Europe, shows that the expenditure is likely to which are sensitive compared to results obtained for the following reasons:

- reduced value of investments in human capital trained incumbent on a person threatens to cause frustration rather than positive spillover effects on the labor market;
- an increased tax socio-economic environments in which most of the population has a low standard of living and business environments where productivity is low, likely to inhibit the accumulation and investment of profits;
- orientation of investing in human capital and education are likely to generate a structural imbalance in the balance between quality of human capital accumulation, especially in the short term, creating new distortions on the labor market, involving new expenditures of labor retraining thing.

However, we must bear in mind that investment in human capital and education is a multiplier for the cost of training and education. In this regard, analytical studies undertaken in different economic areas shows that applying input-output method, the rising cost of labor input is unable to drive a similar increase in output value or a change in its structural composition that justify increased investment effort.

At the same time, there are some effects of aggregation vicious on investment in education, training and retraining of the workforce. The diplomas, certificates and professional certificates as the main instrument of accession on the labor market and employment of senior and better paid, demand for diplomas, certificates and professional certificates is growing. Therefore, in these conditions, a phenomenon depreciation of graduation diplomas, which propagates from lower levels to higher education system, and the same social status are asked to fill a need, over time, individual costs social and increasingly larger.

Fruits investment in human capital are collected medium and long term in all states competing for progress and prosperity, but especially new countries joined the European Union, which is one of the problems in the field.Therefore, investment in human capital, ie education, training and health concerns:

- training and training-scientific human resources available,
- HR adaptation to structural change of the economy imposed by scientific and technical progress on the basis of efficiency.

Also, due to the current economic crisis, the job market remains tense. For these reasons, governments pay particular attention retraining and retraining of the workforce.

Conclusions

Human capital in Romania and the European Union in this field indicates that exit a subinvestiţie and its effects on the economic performance of the labor force will be felt more than ever, the productivity of labor resources.

In our country, there is cheap labor, so less productive, although there are competitive employees, but their number is small compared to cheap labor. An example is the export of labor to European Union member states.

In conclusion, the Romanian workforce lacks competitive mentality, flexibility and adaptability to changing conditions of the economic system which justifies the difficulty that many Romanian accept new jobs. For this reason we have this unemployment.

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TOOLS AND METHODS TO PREVENT THE RISK OF BANKRUPTCY OF THE INSURANCE COMPANIES

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Abstract:

We may appreciate, according to the data for 2008, that the negative impact caused directly by the financial crisis for the insurance industry in Romania has been quite limited until now, consisting mostly in the reduction of the clients' trust, especially of those clients with life insurances.. The global financial crisis led to a significant public distrust in the financial institutions, affecting to a large extent the main insurance companies. Therefore, it is necessary to review the set of the prevention and safety measures imposed by the Insurance Supervision Committee.

Key words: margin of solvency, guarantee fund, technical reserves

Jell Clasification: D81, G22, G38.

The risk of bankruptcy

Different economical agents are only assuming risks according to the anticipated return. In this context we must introduce the notion of "risk management". Overall, it involves minimizing losses, respectively additional expenses in case of risk.

The risk of bankruptcy can be defined as the inability of companies to deal with a financial transaction, or inability to pay financial obligations on time, conditions set by third-parties according to a lending contract. It can be the result of difficulties which initially could not be identified but have shown themselves.

Therefore, the diagnosis process of the bankruptcy risk may consist of evaluating the company's capacity to deal with the third parties' commitments, so the evaluation of the company's solvency.

Solvency ratios are important when comparing between the companies in the same sector or between the rates realised by the same company at different times. These rates are related to another representative concept for the company's risk analysis or the liquidity concept.

Overall, liquidity is defined by the degree to which an asset can be quickly converted, without additional expenses in means of immediate payment in cash or demand deposits.

To analyze the risk of bankruptcy, liquidity sings are those which assess a financial condition thereof, characterized by the current assets in the short term of the short-term outstanding expenses (taxes, paying suppliers, reimbursement by other creditors that make up total debt, current liabilities of the company respectively). In this category are the current rate, rapid rate and the stock of trust [1].

Risk is often a relatively difficult phenomenon to predict and detect, the events that may arise in a situation at a moment is a challenge even for the most experienced visionaries, because the future is mostly unknown.

They can be made based on events and the string of past and present events, estimates, assumptions, forecasts of future events which involve a certain risk, sometimes difficult to define, and in some cases impossible to measure accurately, because the nature of the concept is abstract.

The risks of the insurance company

In developed countries, the insurances have become an important part of the national economy, because the insurance companies, brokerage companies, by the added value created, provide jobs, participate in the capital offer on the financial market and by the amounts offered to the insured, contribute to restoring destroyed or damaged property and thus increase GDP. [3]

Some experts emphasize certain aspects of insurance industry:

- Service providing industry;
- Financial intermediary;
- Financial activity.

The insurance industry offers to the insured persons a specific intangible product in exchange for the received insurance fees, thus taking responsibility for the insured risks, and ensuring safety for the cases agreed in the insurance contract.

Information on business performance, especially about its profitability, are useful for assessing potential changes in economic resources that the firm will be able to control in the future and to anticipate the ability to generate cash flows with the existing resources.

The company performance may be influenced by its financial risk. Financial risk is defined as "the variability of results indicators under the company's financial structure" [4].

The financial risk comes out from the company's ownership structure or from the use of financial instruments.

One of the main risks the company is exposed to is the operational risk, which concerns the costs structure as fixed and variable costs. This division results in a lower or higher structure depending on the outcome of the production and sales results, and for the insurance companies, only on the policies sales and investments they make.

The risk of bankruptcy is the result of the insolvency of the company and may cause even its demise. Solvency crises do not always lead to bankruptcy. Most times, companies ensure their survival, but even in this case there are specific costs involved that can affect future work.

Profit obtained by resorting to the use of derivative financial instruments (DFI) appears as a reward for the risk assumed upon their contracting. [2]

Insurance is a system of economic relations involving a large number of individuals and legal entities in establishing a monetary fund, while being threatened by the same dangers regarding their existence and work, dangers that are probable, possible but uncertain

From a financial point of view – insurance is constituted between a financial intermediary and the insured persons that pay repeatedly the insurance fees and the individuals or legal entities that need supplementary financial resources.

In the "Theory on economical development (Study on profit, capital, share and juncture cycle)", J. Schumpeter argues that if the risks are not taken in consideration on economic plan, they may become a source of loss, on one hand, and income source on the other hand (Fig.1). Lower risk decisions may be chosen, but in this case the benefit would be lower as well.

In the Fig.1 it can be seen that the risk do not provide the lowest profit and the higher the risk, quite contrary the higher the risk, the higher the profit then.

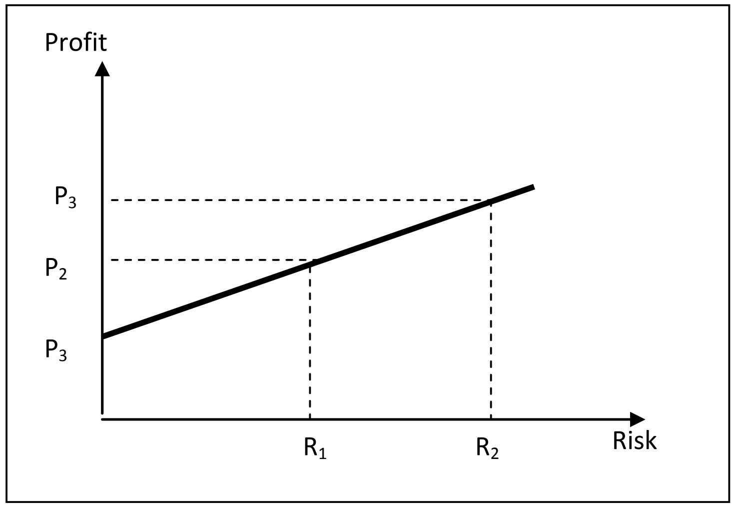

Fig. 1 – Relationship between profit and risk

In order to protect the insured individuals' rights and to promote the financial stability in the insurance sector, it has been created the Insurance Supervision Committee, which is integrated in the global insurance supervisors system by affiliation to I.A.I.S. ISC is constantly following the implementation of the best practices and endeavors to constantly intensify the activities designed to provide an efficient protection of the insured individuals' interest.

In the following we provide a brief description of the main ISC's tasks: to apply the insurance legal framework impartially, honestly and promptly; to protect the insurance products consumers; to encourage the creation of new healthy insurance markets; to promote the need of a better service for the public interest. ISC's activity started on July 2nd, 2001[7], [15].

In order to fulfill these legal tasks, ISC elaborates orders and applies regulations regarding the use of methods and instruments, according to the insured individuals' interest, for preventing the financial risks of the insurance companies.

The regulation instruments

These regulation instruments [7] can be:

- **Expense reserves** – total amounts registered in the insurance company's accountability for obligations related to the damages not covered on the date of booking;
- **Prudential margin** – the amount of any additional provision coming out of the inherent uncertainty in establishing the technical reserves existing in the company's accounts;
- **Technical reserves** – total reserves for damages and for the unexpired risks as well
  - The gross technical reserve meaning the technical reserve calculated before cession in reinsurance;
  - The net technical reserve meaning the technical reserve calculated after cession in reinsurance;
  - Reserves for unexpired risks meaning the fee reserve plus any other adjustment needed to cover some supplementary payments, including future expenses.
- **Margin of solvency** at disposal [16].

Solvency is the ability to cope with the economic unit due obligations resulting either from prior commitments contracted or compulsory levies.

The main tools used in statistical analysis patrimonial operational risk of bankruptcy are working capital and liquidity rates. [11], [12]

According to economic theory, a firm is solvent if there is financial equality:

Fixed assets = permanent capital;

Net current assets = operating Debts.

Compliance with these equalities implies perfect regularity in terms of receipts and payments, which in economic and financial practice not usually happen. Therefore there is a need to build up a reserve that can handle "the rhythm irregularities" book called "working capital" (working capital asset).

In this case, there is inequality:

Permanent capital> Fixed assets,

The difference is just that a revolving fund.

Working capital is an important indicator in assessing the financial situation of the company, representing the permanent financial resources that ensure financing of current assets that are constantly renewed.

The insurance companies authorized to deal with general insurances, must maintain permanently a margin of solvency at their disposal, according to their line of activity, at least equal to the minimum margin of solvency calculated by the ISC.

The solvency margin at disposal is represented by the set of active elements, free of charges, except the intangible ones.

The solvency margin at disposal is decreased with the value of the shares directly owned by the insurer.

Except the elements above, when calculating the solvency margin at disposal, other elements can be taken in consideration, as well.

At the end of year 2008, the average solvency margin for insurance companies was more than 2 for general insurances and larger than 3.5 for life insurances, taken into account that the minimum level required by the legal regulation is 1 according with the EU law.

On the April, 2013, the Romanian Parliament ratified, in the common assembly of the two Chambers, the ASF - the Financial Supervisory Authority. The new structure will begin its activity in May and it will take over the attributions and functions of CNVM - the Romanian National Supervisory Commission of the Stock Exchange Securities, CSA - the Insurance Supervisory Commission and CSSPP - The Private Pension System Supervisory Commission, authorities that will be dissolved and transformed into the parts of the new organization. [9]

Now, at the request of FSA, the insurance / reinsurance company is bound to determine and communicate within 48 hours since the request of the following:

- the calculation of the solvency margin, the minimum solvency margin and the security fund;

- the liquidity indicator;

- the technical situation of raw reserves for each category of technical reserves and the class of insurance they practiced;

- the assets admitted to cover raw technical reserves. [9]

Safety fund

One third of the minimal solvency margin of the insurer is the *safety fund*. The minimal value of the safety fund for general insurances should be at least the equivalent in national currency (lei) of 2.2 million euro at the date of reporting. If the insures subscribes one or more risks from the general insurances[6], the minimal value of the safety fund should be at least the equivalent in lei of 3.2 million euro at the date of reporting. In the particular case of the mutual companies the minimal value of the safety fund is decreased with one quarter. Agencies and branches in Romania of companies with head offices abroad EU, should deposit one quarter of their minimal safety fund as a guarantee, which will be taken into calculation for the safety fund. The assets used as collateral for the minimal solvency margin should be deposited in Romania up to the level of the safety fund.

Insurance companies have to calculate continuously the available solvency margin, the minimal solvency margin and the safety fund, based on data from financial reporting and to transmit to the ISC, a half-yearly and an annual report on the available solvency margin, the minimal solvency margin and the security fund.

Guarantee fund

The guarantee fund [7] regulates both the special procedures to pay the amounts owed to the creditors and the procedures of financial recovery [6] and insurance companies' bankruptcy.

This fund is created from the following financial sources:

Calculation of the amounts owed as a contribution to the establishment of the Fund shall be made by insurers, separately for general insurances and, respectively, for life insurances, based on their monthly account registrations, by applying a percentage, which shall be transferred monthly, to the total amount of gross premiums earned from direct insurance business and the coinsurance, that is established by decision of the ISC Council.

If there is a decision to open insolvency proceedings due to an irrevocable legal order rendered against an insolvent insurance company, then the fund manager is entitled to disburse payments from the fund due to insurance creditors, according to the governing law. On the basis of lists of potential insurance creditors are entitled to receive the due amounts from the fund, and the Special Commission has to publish the measures taken, including potential insurance creditors whose claims have been determined after the verification of damage files and that can be recovered by payment amounts from the disposal of the Fund.

Allowances/compensations are to be paid to the insurance creditors, individuals and/or legal entities, according to the conditions stipulated in the insurance contracts.

If the Fund availabilities are not enough to cover the amounts due to the insurance creditors, their claims will be honored along the Fund supplying with the financial resources provided by the law, within a maximum period of three years from lists publication. ISC can increase anytime the percentage share provided.

The recovery of the Fund claims is made by making use of the goods and/or rights and income of the insurance company [7].

Guarantee Fund is entitled to register and recover in case of bankruptcy of the insurance / reinsurance society indebted, all amounts paid to the creditors as payments made as a result of insured risks occurred after the time opening of bankruptcy proceedings. [7]

The scores method to prevent the risk of bankruptcy

In recent years, due to the dynamism of financial-economic activity of companies, it was established itself as an objective necessity of knowledge as accurate information on the risk of bankruptcy at some future time.

This has resulted in the development of other methods of bankruptcy risk prediction scores method has been called, which has seen an important recognition that uses statistical methods for the analysis of financial statements, based on a set of indicators.

Scoring method is to provide predictive models for assessing the risk of bankruptcy of a company. This method is based on statistical method to find which forecasting variables are given certain weights so that their sum to give a global indicator is the Z score.

All studies of bankruptcy risk prediction for business are based on initial contribution of Beaver (1966) and Altman (1968) and J. Argenti (1976) in the event of bankruptcy risk analysis. Followed and other authors have developed models based on scores method: The Conan and Holder (1970 -1975), The Central Bank balance sheets of France (1977-1979), the French Commercial Credit Method, Method 'credit - men "or" security - analysis"[12],[13].

Romanian authors have developed models based on the scores method and Romanian authors such as [8]The Mânecuță and Nicolae Model(1996), Model B - Băileşteanu (1998), The method of score function - Paul Ivoniciu, and Model A - Ion Anghel (2000).

Conclusions

Bankruptcy risk was and is a sensitive domain in which experts have decided to research and elaborate a mathematical model to answer the question "Is the company heading for bankruptcy or not?". The ability to predict future difficulties that an economical agent might face or another was and is highly appreciated by investors and lenders if overcome, in infancy, insolvency. CSA protects the insured of the insurance society's bankruptcy. Through models which resemble the scores method, we try to anticipate their bankruptcy risk.

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