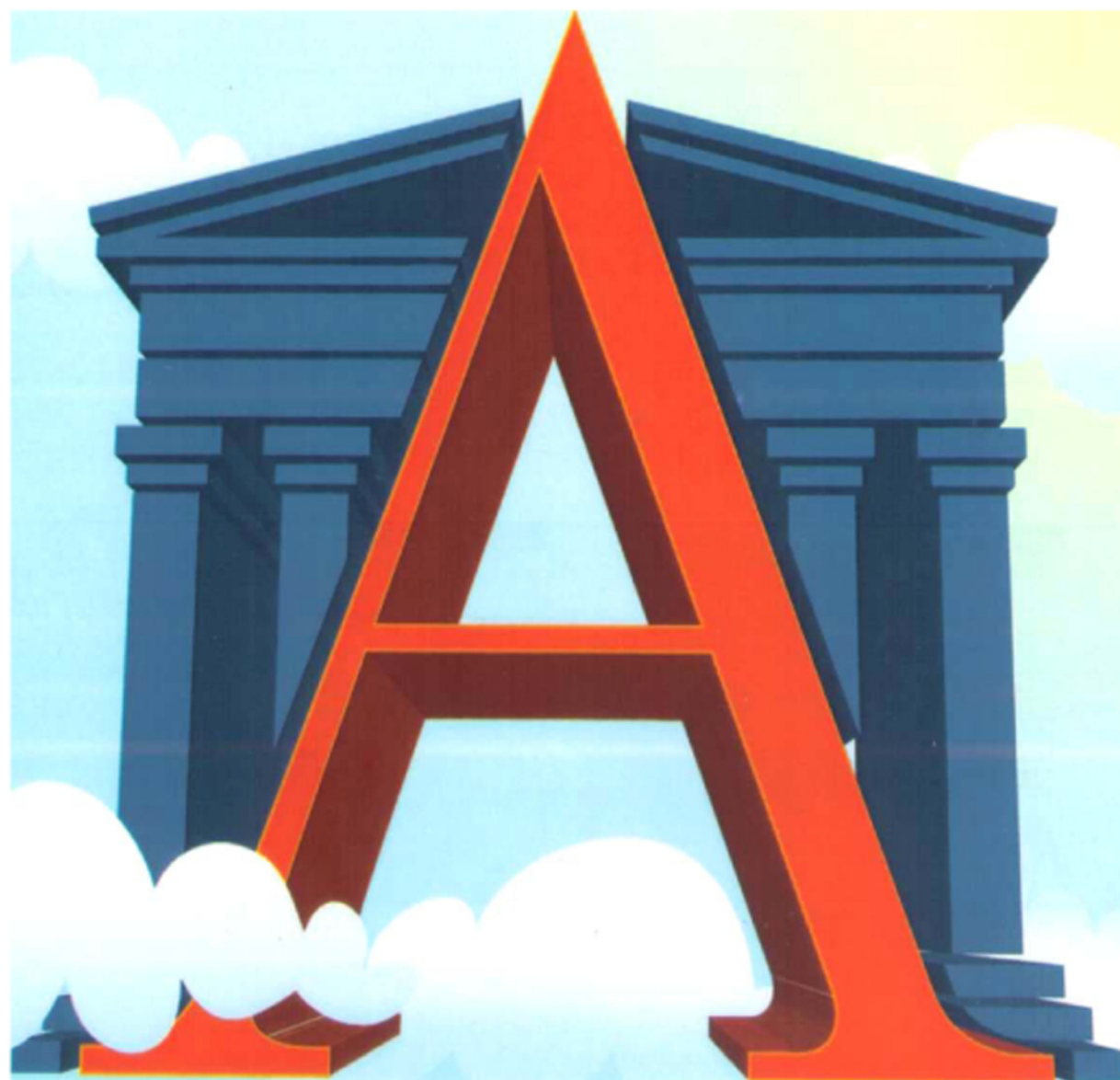


# INTERNAL AUDITING & RISK MANAGEMENT

ANUL X, Nr.2(38), Iunie 2015



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A T H E N A E U M

& Centrul de Excelență în Managementul Financiar și Audit Intern

# **INTERNAL AUDITING & RISK MANAGEMENT**

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**C O N T E N T S**

<b>1. THE “EUROPA 2020” IMPLEMENTATION RESULTS ON ROMANIA</b> <b>Dalina Maria ANDREI</b>	<b>1</b>
<b>2. ECONOMICS OF INTEGRATION. A DEBATE OUTLINE</b> <b>Liviu C. ANDREI</b>	<b>13</b>
<b>3. LANDMARKS OF YOUTH LABOR MARKET DEVELOPMENTS IN THE KNOWLEDGE-BASED SOCIETY</b> <b>Mariana BĂLAN</b>	<b>29</b>
<b>4. COUNCIL OF EUROPE, EUROPEAN COUNCIL, COUNCIL OF THE EUROPEAN UNION</b> <b>- CONCEPTUAL AND INSTITUTIONAL DISTINCTIONS -</b> <b>Luciana BEZERIȚĂ (TOMESCU)</b>	<b>41</b>
<b>5. EVALUATION AND RISKS OF DRUGS’ TRAFFICKING</b> <b>Silviu Ciprian BUCUR</b>	<b>55</b>
<b>6. ETHICS, MANAGEMENT AND HUMAN RIGHTS</b> <b>Nelu BURCEA</b>	<b>63</b>
<b>7. DYNAMIC ACTIVITY OF FOREIGN TOURISTS NATIONWIDE</b> <b>Cristina BURGHELEA</b>	<b>69</b>
<b>8. THE RELEVANCE OF THE ”EXPENDITURE BUDGET – COSTS BUDGET” BINOMIAL FOR THE MANAGEMENT OF NATIONAL COMPANIES. CASE STUDY – THE ROMANIAN TELEVISION SOCIETY</b> <b>Veronica CATARGIU</b>	<b>85</b>
<b>9. CONSIDERATIONS REGARDING THE SUPPLY AND DEMAND IN THE SERVICES MARKET IN THE ROMANIAN HIGHER EDUCATION</b> <b>Maria CIUREA</b> <b>Mariana MAN</b>	<b>99</b>
<b>10. ENERGY AND INNOVATION SECTOR SEEN AS ESSENTIAL FACTORS OF ECONOMIC SECURITY IN THE THIRD MILLENNIUM</b> <b>Florin CORNEANU</b>	<b>115</b>
<b>11. INTEGRATED REPORTING - THE FUTURE OF FINANCIAL REPORTING</b> <b>Diana Sabina COZMA IGHIAN</b>	<b>125</b>

<b>12. CONSUMPTION RISKS OF PESTICIDE-CONTAINING PRODUCTS</b> <b>Alina DRAGOMIR</b>	<b>135</b>
<b>13. NEED OF A NEW SOCIAL AND ECONOMIC PACT – HORIZON EUROPE 2020</b> <b>Cornelia DUMITRU</b>	<b>145</b>
<b>14. FORECASTING SEASONAL TIME SERIES WITH CALOT MODEL</b> <b>Calcedonia ENACHE</b>	<b>155</b>
<b>15. GENERAL NOTIONS OF ACCOUNTING BALANCE AND RECOVERY</b> <b>Dinu NICOLESCU</b>	<b>163</b>
<b>16. THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SUSTAINABLE DEVELOPMENT (SD)</b> <b>Liliana Nicoleta SIMIONESCU</b>	<b>179</b>
<b>17. UNEMPLOYMENT BENEFITS IN MEMBER STATES OF THE EUROPEAN UNION: A COMPARATIVE ANALYSIS</b> <b>Simona Maria STANESCU</b>	<b>191</b>
<b>18. ECONOMIC AND LEGAL IMPLICATIONS OF THE FISCAL CODE</b> <b>Verginia VEDINAȘ</b> <b>Laurențiu VEDINAȘ</b>	<b>203</b>
<b>19. PRELIMINARY ACCEPTANCE OF THE ENGAGEMENT ACTIVITIES</b> <b>Sorin Sandu VÎNĂTORU</b> <b>George CALOTĂ</b>	<b>211</b>
<b>20. CHINESE AUTOMOBILE ENTERPRISE STRATEGY ANALYSIS</b> <b>Chai Feng xia</b>	<b>223</b>

## THE “EUROPA 2020” IMPLEMENTATION RESULTS ON ROMANIA<sup>1</sup>

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### **Abstract**

*Since the ‘Europa 2020’ Strategy had been launched in early 2010, its first analysis by the European Community came on 5 March 2014 to see on both regional and member States levels the accomplishment of its five major objectives. Primarily, this EC’s analysis found that it is about a mixed progress towards such accomplishing, e.g. the current crisis did seriously brake performing on employment, poverty chasing and all the other objectives of the Strategy, except for limiting greenhouse gas emissions – exception that confirms the general rule in the sense that the same crisis actually affected both production and transportation on their total development and consequences.*

**Keywords:** *‘Europe 2020’ Strategy, employment, poverty, social exclusion, greenhouse effect gas emissions, education related Strategic objectives.*

**Jel Classification:** I31, I32, J21

EC concludes about a slow economic growth and a mixed progress in the Strategy objectives accomplishing in the 2010-2020 interval, e.g. the *education, climate change and energy* related objectives approach their full achievements, whereas the *labor employment, research-development-innovation* and *poverty reduction* ones differently perform. Besides, less satisfaction arises when good regional progress comes to be analyzed at the national level, i.e. on the EU’s Member States. There are sometimes obvious and serious performing gaps between Member States and even regions. Or,

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This paper is a part of research theme for 2014 : “ Coeziunea economico-sociala a Romaniei in perspectiva Strategiei Europa 2020, Partea II / Romania's economic and social cohesion in the perspective of Europe 2020 Strategy, Part II, “ , coordinator Dr. Mioara Iordan, Institute for Economic Forecasting , Romanian Academy.

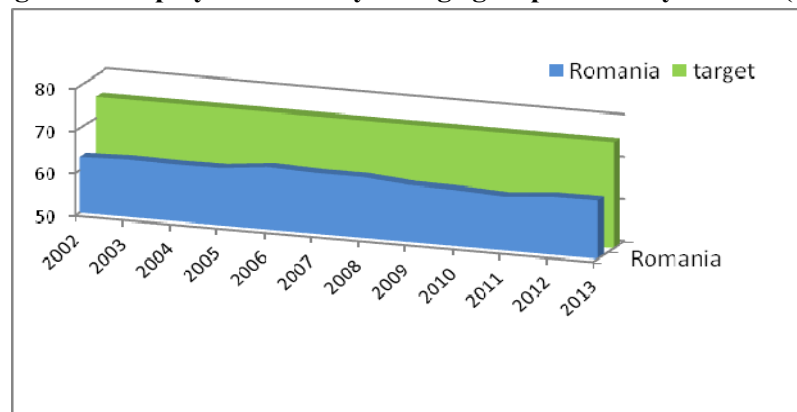
all these challenges are supposed to be approached in a forthcoming context of Strategy revising.

And so let us extract from the same analysis the corresponding set of the Strategy's results for Romania, as follows.

### I. Employment-related objectives:

**The employment rate of 20-64 years old people** calculates through employed population of 20-64 years old divided by total population of the same age. Population numbers include people of private households and exclude people of collective households, e.g. pensions and hospitals. Such rates on Member States perform between 62.9% in Malta and 80.0% in Denmark, Netherlands and Sweden. As overall on the EU region, the rate made as high as 68.4%, meaning 6.6 % less than the specific Strategic target (previously) established. Romania, on its side, correspondingly records a decrease for this rate from 69.8% in 2007 to 63.9% in 2013, so making a 6.1% gap from the 'Europa 2020's specific provided target.

**Figure 1: Employment rate by the age group of 20-64 years old (%)**



*Calculation based on Eurostat statistics*

- **Young population employed.** The 15-24 years old employed people in the total corresponding age group in Romania also met a 6% decrease during 6 years for coming down to 25.3%, as compared to the EU28 average of 35.1%.

- **Young people employment rate: the 15-24 years old age group (%)**

As effectively, this young employed population did record in Romania 1,009 thousands in 2002, then a decrease to 604 thousands in 2013, whereas EU28 went from 23,000 thousands to 18,000 in the same interval.



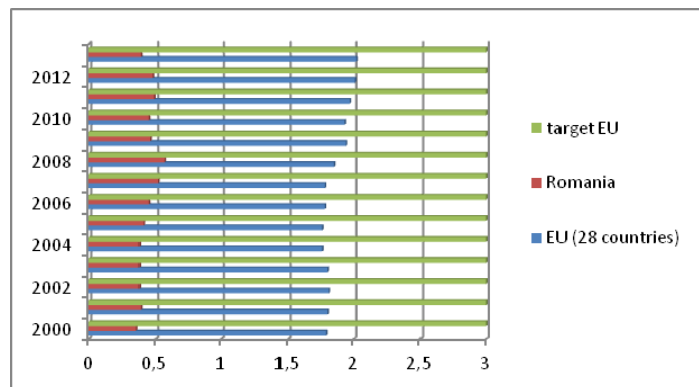
- **Effective 15-24 years old population (thousands):** Romania here recorded on its inside regions the highest rate at 40.7% (for 'North-East') in 1999, then a decrease to 30.6% in 2013.

As for the Romania's opposite lowest employment rate of the 15-24 years old age group on inside regions, this was 'Center' with around 17%, as correspondingly. As for the same age group in Romania on regions and sexes, the 2000-2013 years interval found its average rate at 23%, its highest rate at 26% on the 'North-East' region as well and its lowest rate at 19.8% in 'Bucharest-Ilfov' for men. Correspondingly for women, the average rate was here at 17%, the highest rate in 'North-East' at 21.6% and the lowest ones at 15% in 'Center' and even at around 14.6% in 'South-East' and 'Bucharest-Ilfov'.

## II. Research and development related objectives

**Research-development (R&D)'s expense weight in GDP (%)** is supposed to perform an about 3% growth rate up to 2020 for the whole EU region. The *experimental R&D* gathers a continuous creative work on enlarging knowledge, here including knowledge about the human being and society and here including usage of the same knowledge on new applications<sup>1</sup>. The EU's investments in research-development and innovation performed a growth rate from 1.78% to 2.02% along the 2007-2013 interval, but stay enough lower than the 3% targeted level for 2020, that then also became less probable to be performed. Pretty the same for Romania, for its 2% targeted R&D expense in GDP.

**Figure 2: The R&D expense in GDP (%)**



Calculation based on Eurostat statistics

As on *inhabitant*, the experimental R&D expense in Romania was at 27.9 EUR, this corresponding to a total that was 0.39% of GDP in 2013

<sup>1</sup> Frascati Manual, 2002 edition, § 63

(much lower than the 2% of GDP target for Romania, from the EC's Strategy). As correspondingly for EU, the experimental R&D expense was 539.2 EUR per inhabitant for a total that was 2.2 % of GDP.

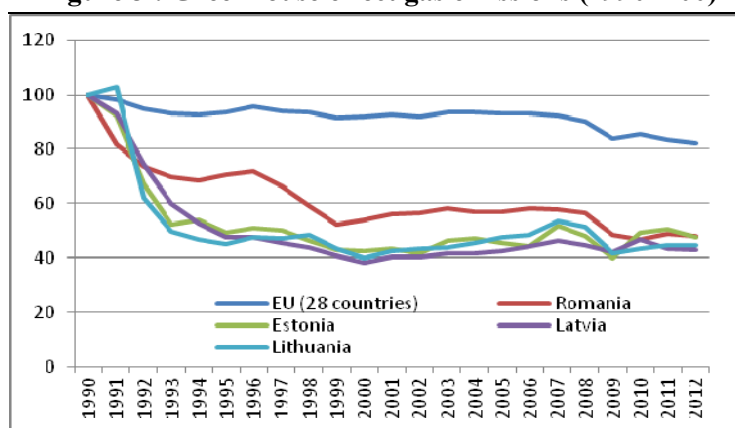
Regarding the experimental R&D expense per inhabitant (EUR/inhabitant) for inside regions of Romania, this time 'Bucharest-Ilfov' meets the highest amount on inhabitant at 155 EUR for experimental R&D expense that makes 1% of GDP as the total amount. At the other end, the lowest R&D expense was 4.8 EUR on inhabitant for a total amount of 0.11% of GDP in 'South-East'.

### III. Greenhouse effect gas emissions and regenerating energy resources employed.

**Greenhouse effect gas emissions** are an indicator that shows trends in total emissions of greenhouse effect gases. A total annual of such emissions here relates to a long term trend as such that starts in 1990, as reference year considered. And gases here considered are: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrogenous protoxide (N<sub>2</sub>O) and the set of fluorinated gases available. All of these gases' emissions transform into CO<sub>2</sub> units equivalent, but the calculated indicator here either excludes emissions resulted from operations like land exploiting and shifting the use of land here, including for forestry, or does not here consider gas emissions by international transportation by sea and air.

In such a context EU expects a total reduction of greenhouse effect gas emissions of about 20% in 2020, as compared to the 1990 situation for the whole geographic region. And as effectively the end of 2012 found a reduction of 17.86 percentage points, as compared to the same 1990 basic situation. This is a context in which Romania has performed a 52.02 percentage point reduction that is the fourth place in the region, after Baltics, Estonia, Latvia and Lithuania, and respecting the previously proposed limits of such reduction for the country.

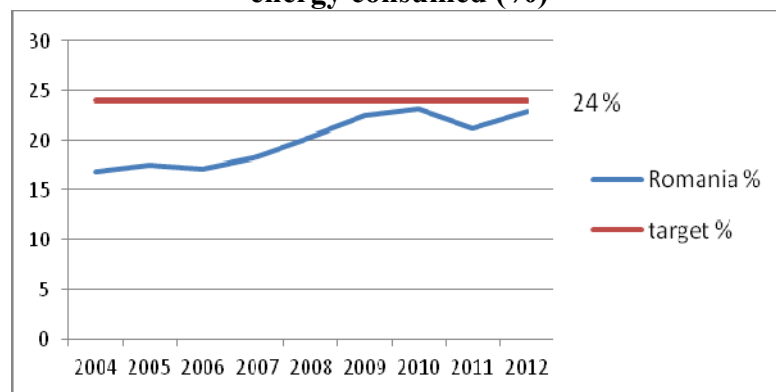
**Figure 3 : Greenhouse effect gas emissions (1990=100)**



Calculation based on Eurostat statistics

- Progress might be highlighted on the whole EU region in the respect of the weight of **regenerating energy sources** in the total energy consumption evolving<sup>1</sup>, i.e. from 10% in 2007 to 14% in 2012, but the previously established targets stay far from reality – i.e. these targets were 24% for 2020 and correspondingly 22.9% for 2012.

**Figure 4: Weight of regenerating energy sources in the total energy consumed (%)**



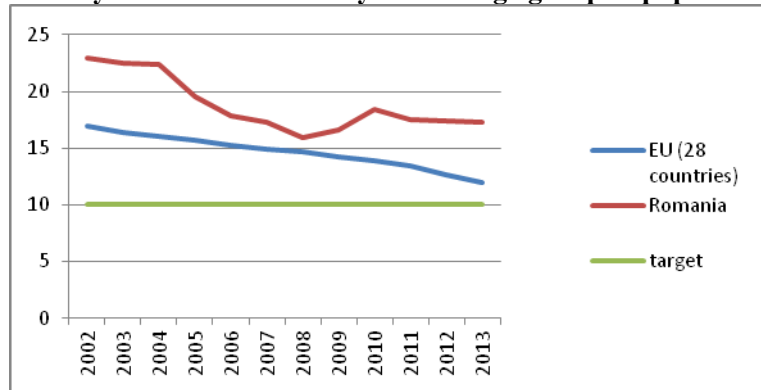
Calculation based on Eurostat statistics

#### IV Education-related objectives

The indicator that reflects the weight in the total corresponding age group of 18-24 years old population of people who drop out education and professional formation systems assumes two lines of restrictions. The one is considering ISCED 0, 1 and 2 of the internationally classifying standards as the highest education and professional formation levels considered. The other is personal statements that individuals considered – as within the *numerator* -- haven't attended any education and/or professional formation course during four weeks previous to the developed study. The last works concomitantly to *denominator* that refers to total population of this age group. Or, this weight did constantly lower in the EU region from 17% in 2007 to 12% in 2013. But Romania – i.e. a pretty constant drop out rate of 17.3% between 2007 and 2013 that means a 11.3% gap against corresponding national target -- stays in a group of Member Countries with high drop out rate and low progress against it, together with Spain, Malta and Portugal.

<sup>1</sup> The weight of energy from *regenerating sources* in the total gross energy consumption calculates on data provided by the EC's Rule Number 1099/2008 regarding Statistical Procedure on Energy. However, Member States provide additional information on their regenerating energy sources that do not belong to this rule, if the case. The result of such a weight calculated so stays estimation (approximation) here recognized for a no full y harmonized statistic and no fully respecting this EU Directive.

**Figure 5: Weight of people that drop out education and professional formation systems in total 18-24 years old age group of population (%)**

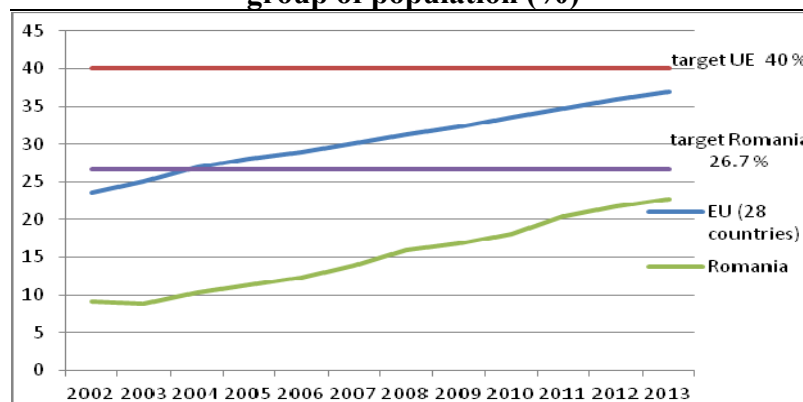


Calculation based on Eurostat statistics.

This actually is the weight of 18-24 years old people of secondary education level and no other form of course or training attended in the total population of the same age group

Weight of tertiary education in the 30-34 years old age group is the corresponding weight of 30-34 years old people successfully graduating universities or assimilated educational forms in the total corresponding age group, according to ISCED 1997 (International Standard Classification on Education) of 5-6 levels. Or, this indicator really covers the main ‘Europa 2020’'s Strategic objective of rising number of 30-34 years old people university (tertiary or equivalent) graduated to a minimum of 40% of population up to 2020. In real terms, those are close to such a target, i.e. 22% in 2000 and 37% in 2013, that is as low as 3% gap against the 2020 target on this indicator. Romania itself performed progress on this, i.e. from 13.9% in 2007 to 22.8% in 2013, but also here stays in a group of EU Member States with low corresponding weight, together with Malta, Austria and Slovakia.

**Figure 6: Weight of tertiary education of 30-34 years old age group of population (%)**



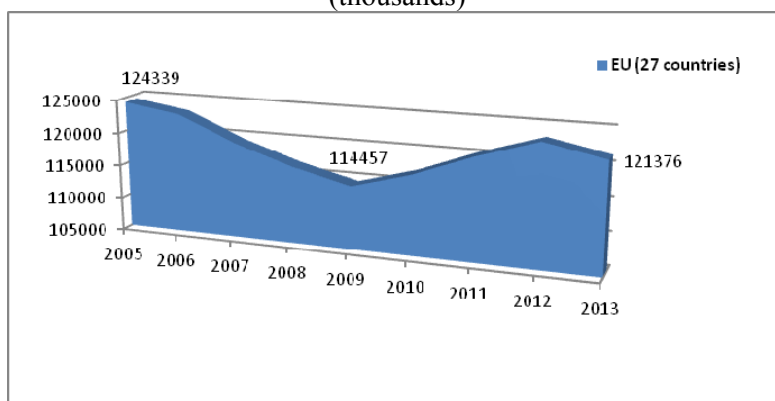
Calculation based on Eurostat statistics

### V. Exposure to poverty and social exclusion

‘Europa 2020’ supports **social inclusion**<sup>1</sup>, first through reducing poverty, i.e. through 20 millions less people of any risk of poverty and social exclusion targeted. This is people really exposed to poverty and/or to material depriving as well as people living in households with enough low intensity of labour. Restriction is that each individual accounts just once, despite multiple sub-indicators considered for. As for a definition, individuals exposed to *poverty risk* are the ones of disposable income below 60% of the national average equivalent (i.e. post social transfers applied). The same for *material depriving* that means diverse indicators of missing, e.g. missing of long-term use goods. Plus, *severe* material depriving refers to individuals of life conditions severely affected by some of the following: not affording rent and/or utility bills current payment, not affording home heating payment, the same for unexpected payments, the same for eating meat, fish or proteins every two days, the same for one week vacancy far from home, the same for having a car, the same for a washing machine, the same for a TV color, the same for a phone.

Finally, individuals living in *households of very low labour intensity* are those of 0-59 years old living in households of which’s adult individuals (i.e. 18-59 years old) work less than 20% of their whole potential.

Figure 7: Population under poverty and social exclusion risks in EU (thousands)



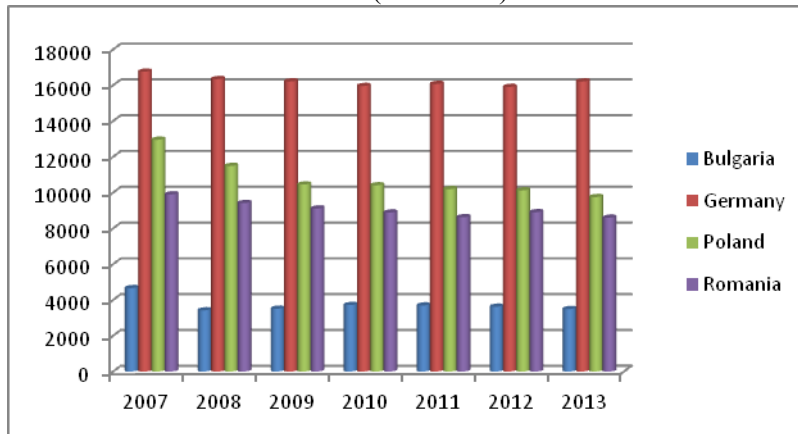
Calculation based on Eurostat statistics

There was rather no significant increase of the weight of **individuals exposed to poverty and exclusion risks** in the aftermath of Romania and Bulgaria joining the EU in 2007, as previously expected. Even on the contrary, significant lowering did occur in 2009, as against 2005, by 9,882

<sup>1</sup> Eurostat statistics explained, 2014

thousands; but then such progresses came to be vanished by the next crisis the way that poverty rate was rising and went back to the one of the previous 2005 in most of the EU Member States. Then, in 2013 there were new poverty reductions in Member States like Germany, France, Poland, Bulgaria and Romania.

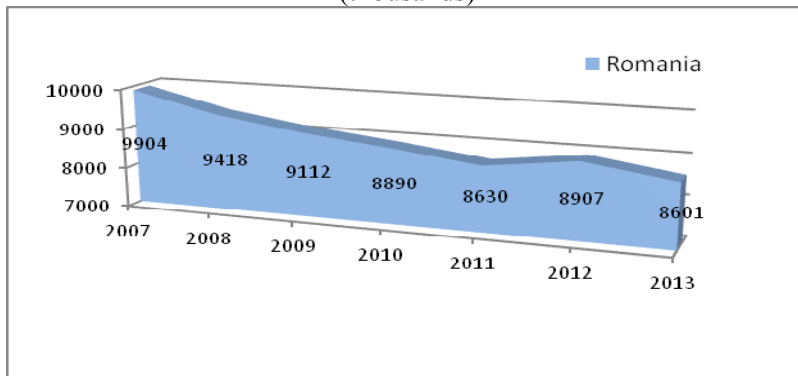
Figure 8 : Significant poverty reductions in some EU Member States during 2007-2013 (thousands)



Calculation based on Eurostat statistics

Correspondingly in Romania, the same 2007-2013 interval saw 1,303 thousands less exposure to poverty and social exclusion risks.

Figure 9:Romania: population exposed to poverty and social exclusion (thousands)

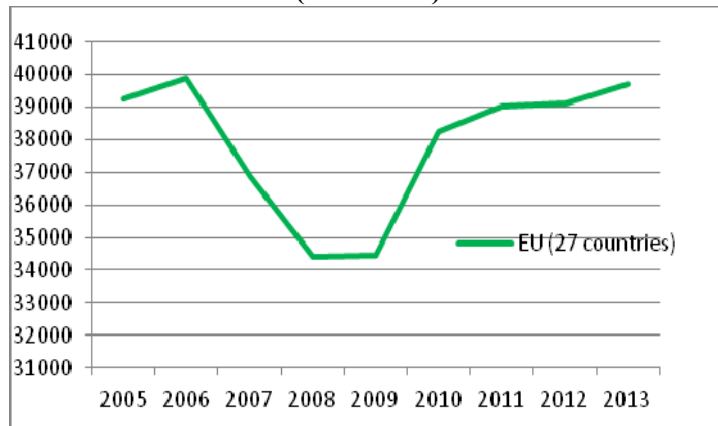


Calculation based on Eurostat statistics

As for effective population exposed to these risks weight in total, member countries like Slovakia, Lithuania, Latvia, Poland and Czech Republic performed reductions by 10-20%, concomitantly with contrary corresponding risings in Greece, Malta, Hungary and Slovenia of about 5%.

Back to population living in **households of very low labour intensity**, this met a spectacular drop in the (whole) region within the 2005-2008 interval, then a rise when the crisis up to 4,000 thousands, i.e. 10% of the total EU population, in 2013.

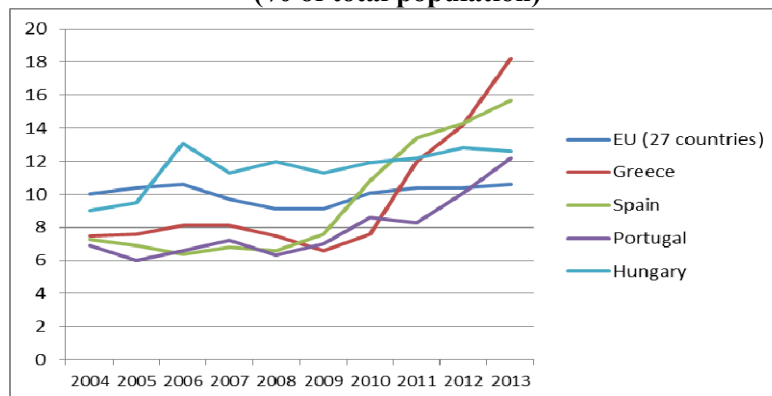
**Figure 10 : EU- population living in households of very low labour intensity (thousands)**



Calculation based on Eurostat statistics

Greece and Spain did record significant risings in the weight of population living in households of very low labour intensity up to about 15-18% of whole populations of each country, as on average, then doubling this indicator in 2013, as against 2012.

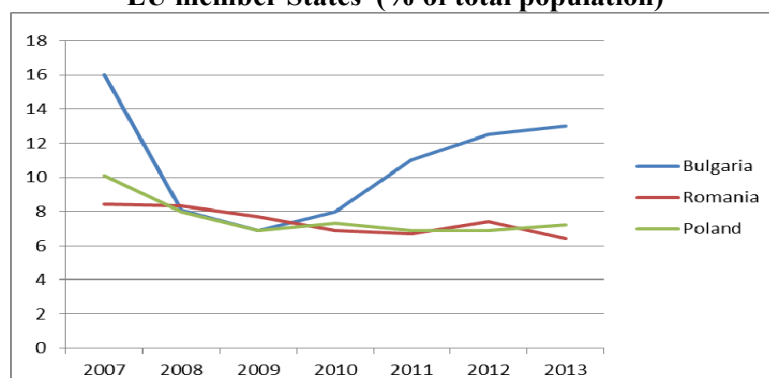
**Figure 11: EU and some Member States: population living in households of very low labour intensity, in total population (% of total population)**



Calculation based on Eurostat statistics

At the other end-scale, Bulgaria with 13% (695 thousands) of total, Poland with 7.2% (2,124 thousands) of total and Romania with 6.4% (1,079 thousands) of total did record significant lowering as against 2005.

**Figure 12: Population living in households with low labour intensity in some EU member States (% of total population)**



Calculation based on Eurostat statistics

The 'Europa 2020' Strategy's first step revision was done by its EC's communication on primary implementation plus debate in the European Council met on 21-22 March 2014. The Commission (EC) insists on that such communication (that is the primary one on this Strategy) does not contain any conclusion or political recommendation, but just a first step on a public consultation expected for the 5 May – 31 October 2014 interval towards a decision for Strategy revising by the next European Commission.

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## **ECONOMICS OF INTEGRATION. A DEBATE OUTLINE**

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### **Abstract**

*Integration is geographically larger than the EU or European region and did start as one of new specific economic processes of the postwar era. There are at least two types of integration, of which the EU one proves qualitatively distinguished as currently. Such a new movement equally reaches its specific economic thinking which's development proves as complex as producing increasing dilemmas for management and political decision. The paradox is that one century time ago paces to be taken were better viewed than the immediate future here and now appears to the current generation.*

**Key concepts:** *Integration; European type integration; incipient & advanced integration phases; customs union; economic convergence; monetary union; fiscal union; optimum currency area*

**Jel classification:** *A10; B15; B25*

These lines below gather an ideas and experience synthesis about basics of this (more or less) new topic that *Economics of Integration* is or, at least, wishes to be. Other previous articles of the author and book manuals here compete and what is new is the order of descriptions (as compared to the other articles) and brief space allotted to (as compared to the case of book-manuals<sup>1</sup>).

### **1. Theoretical basics**

#### **1.1 The Balassa's and Viner's contributions; and not only**

In all economics, *effective development* and *thinking* about are always different stories. When one says *economics* or *theory of integration* one sees first the EU and its first theorist ever that is the Hungarian

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<sup>1</sup> E.g. Andrei (2007; 2011):

professor Béla Balassa, with his paper of 1961 (Balassa 1961). As seen from today, the fact that this paper fails just one point – i.e. to be a kind of programmatic document for what since the Treaty(ies) of Rome (1959) founded a States formation Organization evolving and bearing a succession of names<sup>1</sup> up to the ‘European Union’ since 1992 – skips like a very historic detail. Balassa worked for the Union, despite that he didn’t ever do it from inside, but as an independent researcher addressing to other people like him. Then, he preferred America, where he moved and performed a good university and scientific career.

Now, there is another author and fact to be mentioned about the same theory of integration. A Canadian Jacob Viner<sup>2</sup> can also be here included, with his ‘theory of *customs union*’, trade ‘*creation and perversion*’, developed previously than the above highlighted Balassa’s paper (Viner 1950). Or, opinions might be here splitted between joining or not the two scholars in a theory (economics) of integration common or unique topic area. The two authors taken together means at least developing, approaching or ‘scanning’ the customs union description (Viner) in the context of a five phases integration development, among which phases the same customs union comes on the second chronological position; plus, the double biographical similarity between the two authors as coming from different geographical parts of the world to explain about integration in the western Europe and then going over Atlantic to live, work and making their careers.

The alternative to ‘the two authors joining together’ is considering just Balassa the ‘gates opener’ of a topic for which the current generation might enumerate names like: Jaques Pelkmans (Netherlands)<sup>3</sup>, Alan Meyhew (UK), Loukas Tsoukalis (Greece)<sup>4</sup> and many others like just ‘general theorists’, together with an exponentially higher number of specialists of all kinds for the EU specific issues. This is the alternative in which the *customs union* theory of Viner would add to other third theoretical developments ‘coming from outside’ to serve the economics of integration. Theories like ‘*economic conversion*’ (Solow, Samuelson and others), theories of ‘*optimum currency area*’ (OCA / R. Mundell, R. McKinnon, J. Meade, M. Friedmann and others), of ‘*international monetary system*’ (IMS/ R. Triffin)<sup>5</sup> and even the ‘*Balassa-Samuelson effect*’<sup>6</sup> do the same in context.

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<sup>1</sup> E.g. European Community and Communities (which were European Community of Coal and Steel and Euratom), Common Market, finally European Union.

<sup>2</sup> Born there in a family with Romanian origins.

<sup>3</sup> See, at least: Pelkmans (1980, 1994, 2003)

<sup>4</sup> Tsoukalis (2000)

<sup>5</sup> The two theories will be also met below.

<sup>6</sup> This is the other essential contribution of Balassa in his career. Otherwise, this theory deals with a much longer series of authors, starting even with David Ricardo. It is equally

## 1.2 Theory of international trade, a '*sinequanon*' premise

Economics of integration could equally add one more aspect that actually might appear in a converse descriptive order, meaning as the first, instead of the last, as here. Let us just consider the real integration like 'another economic internationalization', more precisely that there would be no integration without international trade and the other international flows and this would be enough to take the economic *integration* (postwar events and international trend) – economic *internationalizing* (starting around the sixties of the 19<sup>th</sup> century, together with the first industrial revolution, now in a strengthened but also controversial 'globalizing' phase) relation as enough special.

Put in different terms, the '*theory of international trade*' might be similarly seen as the other theories that economics of integration relates to. But in reality, this lastly mentioned theory should be taken as the essential premise of integration by all: starting hundred years before, and that with economic *openness*, then shaping the *international economy*, as autonomous flows, and claiming the common economic principle – the one that the economic openness is better than any autarchy. It is also true that later on integration will be found as sharing internationalization only partly, in its *incipient* phase (like deepened below). But all these, in our argument, are pretty enough to accept economic internationalization and its afferent theory in a qualitatively different position than all the other above mentioned theories that join and help the same economics of integration.

And let me develop such argument. Economists reveal that this theory meets some essential moments and contributions that are: (1) the classical one – for which the truth is that David Ricardo (1817) was the lonely contributor and (2) the neoclassical one, so called '*Neoclassic Synthesis*' or the *HOS* (Heckscher, Ohlin and Samuelson) *model*. Then, (3) other contributors like Irwing Meltzer, Wassily Leontief and others. Ricardo had found *national specializing* in international trade context that makes *absolute* and *comparative* advantages of nations, in the international context. Despite a 'classic' that means liberal view economist that was continuing on the Adam Smith's 'invisible hand', a genius like Ricardo found himself equally comfortable to judge about the nation's resort in the economic context, that was not so clear idea at his time. This genius had the intuition of what was going to occur several decades later, when business was cumulating both national and international capabilities – and this is 'unique' as not similar to the forecasting models type of approach. There would be the nations' interests leading flows and developments along the

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interesting that this theory acts like challenging or opposite to economic conversion, so to the integration process.

international area, due to that there aren't stronger interests world-wide than these. There will be business, as well, and national interests relate to, but the same nation keeps its own specific interests. Unfortunately, national economic interests will get conceptually clear only hundred years later in the economic thinking, with the J.M. Keynes' maturity book (Keynes 1936), but Ricardo had even more than one century earlier succeeded to cope with his own time circumstances. His '*absolute*' nation's advantage in international trade points on production and employment, whereas *comparative* corresponding advantage equally involves utility consumption and so the nation's life standard. The previous might be neutral as regarding the other nations and not easy to evaluate; the latter is much more appropriate for comparing nations among them on performing in the international exchanges area. The comparative advantage makes international inequalities and inequity, but important is that this contains a huge new economic transforming 'energy' and even good is that the international market 'is more competitive than all national markets', in the Ricardian view. As the result, prices are internationally more stable and all international business might be easily conducted from home. As consequently, no capital movement needed (i.e. international investments); the same for other production factors, that could similarly ever stay home. This would be 'just one international market' that fills the *Ricardian view* of market in the modern economy.

Ricardo here undertook a modeling on two countries trading between two market goods<sup>1</sup>. So narrowing the international economic picture the classic succeeds to stay close to both internationalizing and customs union, as in the theory of integration's context – and that even better than the later on neoclassic HOS studies.

Ricardo was finally wrong, despite that aspect was far from disqualifying his contribution to (or off) this theory. One century later, the neoclassic HOS first understood that the international market truly isn't more competitive than national markets and the two components of a modern market economy actually just aren't to be compared to each other on such a criterion. On the contrary, the two kinds of markets do exist and work both conceptually and practically – since there are all over two price levels for one market good, and even the international price level of the exporting good is always higher than its corresponding home price. This is the new vision of modern market that is the *post-Ricardian view*. This new picture is also the one in which the Ricardo's absolute advantage of the nation is less investigated (rather neglected by neoclassics), the international

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<sup>1</sup> That was between England exporting wools to Portugal and Portugal exporting wines to England.

area enlarged, as compared to the Ricardo's studying on just two countries, and *comparative advantage* gets clear enough, as functioning – the classic had just found it, as really existing, but his significant weakness was that of not explaining it.

This new explanation went hand in hand with accepting the international market as not more or perfectly competitive. Every nation<sup>1</sup> has some resources more abundant than others, e.g. soil and/or subsoil resources, labour and capital, as translated into production factors. All nation considers these are for being put into value and this is a 'kick-off' common to both national interest involved in the international trade and comparative advantage, as effective. Industries basing on more abundant factors proceed on exportation. But then, there comes a new moment in this implementing story: such goods compete each other on the unique international market making the indirect competition of factors themselves. As consequently, there will be one criterion to decide on such competition, i.e. *value-added* of competing goods – the country exporting higher value-added goods, and correspondingly importing lower value-added goods, will be the winner, such rather qualitative difference making the comparative advantage that classic and neoclassic approaches have searched for so far. And that is due to some more competence of offering an exportation price that indirectly controls other good prices when working higher on the production *vertical*. Exporting extractive industry goods is disadvantaged against all trading goods that beard any processing. Manufactured goods are in advantage as against these exports, but disadvantaged against complex and highly processed goods. Agriculture makes its final goods less value added ones, with specific consequences on comparative advantage world-wide etc. Though, crises of resources are able to disturb such an international order – sometimes exporters of resources in crisis get suddenly reach – like oil exporters in 70ies, for the first time, and especially Arab countries, big country resource exporters like Russia get even able to put political pressure on developed country competitors for such a long time etc. Narrowing international trade also makes such differences between nations' performances less intensive, whereas enlarging markets, on the contrary, intensifies the same symptoms.

Development of the international trade theory is much advanced today on other different aspects. The '*Metzler type paradox*' (Metzler 1949)

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<sup>1</sup> In harmony with some scholars, we can argue that, despite his clear view of economic phenomena, Ricardo failed to make the difference between the nations' option for international trade and their less propensity for competition – maybe, for the classic, the option for international trade was the same for competition here ensured. 'Poor Ricardo' failed to understand that nation might be as selfish as all market competitors, and that due to his 'English' human structure.

explains that the import restriction on a type of good would be able to ensure a trend of approaching the price level of the home corresponding industry (producing the same good) to the corresponding international price level. This theory also helped understanding imports as a pricing policy tool – contrary to restrictions applied, imports are sometimes able to decide on a price level in a shock therapy way.

The theory was able to advance on both philosophies of acting: the one of *trade liberalizing*, but equally the opposite one of working on *restrictions* that would be able to protect home industries against foreign competitors. Trade policies are written and shaped by the same theory, the same as the United Nations' World Trade Organization (WTO)'s programmes.

Another set of approaching theory of international trade does revise the post-Ricardian view of the today market economy evolving. Recall that the Ricardo's 'two countries and two goods' model contains the 'factors stay home' restriction-hypothesis<sup>1</sup>. There can be currently accepted a national-international market landscape as not essentially altered since the early 20<sup>th</sup> century view, but also another double aspect is now enough valid: either other international flows than trade get increasingly important, or capital (i.e. international investment and financial markets) and labour (i.e. international migration) look for each other in all possible (e.g. national and/or international) environments<sup>2</sup>.

Or, first, this accuses the already revealed imperfection of international market competition – on the other hand, such factors' movement tends to remake or repair the same competition. Next, pure factors moving do not keep similar consequences to the ones of goods with this or that factor incorporated. Thirdly, this way international investment becomes a special topic; so does international migration.

As here concluding, there couldn't be any integration without *internationalization* – so, no economics of integration failing to previously understand the great international trade theory here developed between the Ricardo's time and the current day. However, this is to be taken in a complex truth context of integration that proves able to deal with a longer series of theories and positions. As for example, first, integration can be viewed acting like just a more genuine way of trade policy-restrictions combined (i.e. rather restricting the international market to deal with) – so, integration would simply stay a 'limited internationalization'. But an advanced integration (see developments below) could also overpass the simple economic internationalization through searching for a large

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<sup>1</sup> The one that even contradicts his 'international perfect competition' view.

<sup>2</sup> Some studies were undertaken on the premise of possible connections between the two flows.



economic area (multinational region) not complying with national specialization of industries, but tending to produce all utilities – like in the vision of optimum currency area (OCA).

## 2. Non-theoretical basics, as well

But I try to believe that the above list of theories supporting economics of integration even isn't all about. And it is even inside the EU's story that I look when arguing this. Or, it is a 'special' component of integration that can be seen – for the same integration process -- not exactly as in a previous economist's referred view, but this time as in the view of some literary critics that highlighted an artistic procedure used by the French writer André Gide, in his classical novel '*Les Faux Monnayeurs*'<sup>1</sup>. That was called '*mettre a l'abîme*'<sup>2</sup> and consists in emphasizing the similitude between the whole story and just a scene within.

There is, in other words, something inside the integration programme that could recall this full story – and this is the Common Agricultural Policy (or Programme, that abbreviates as CAP). Or, CAP – that otherwise might always be classified differently than here<sup>3</sup> – does not fill the whole integration, but tends to be similarly impressive. Recall that it started in early 60ies for a political reasoning – so the European Community had done before 1960. Then, CAP is a long-term programme, as well, and hasn't ended – integration did not end, as Balassa had foreseen in 1961, as a post monetary union era. Integration is a process full of contradictions that come up in its each step forward – so is CAP, and here recall: starting CAP for both consumers' welfare ensured and farmers' work ensured and, when both aims fulfilled, this Programme came to be 'a victim', instead of claiming its full success; the 'quotas' imposed; problems with inter-member States competition increase when Spain and Portugal joined in 70'ies; problems with 'British taxpayers collecting for French farmers' welfare' since UK joined less than a decade later; problems with WTO, when subsidizing and anti-competition policies applied; all budgeting problems when member States differently contribute to CAP and the Programme requires the highest part of the EU budget for individual policies etc.

In a word, CAP does survive – and so can claim its success --, but it is permanently that it finds the word 'success' as too much said.

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<sup>1</sup> Translated: 'The Money Forgers'.

<sup>2</sup> Translated: 'putting (it) into the gap'.

<sup>3</sup> i.e. in the set of the EU's policies developed.

### 3. Reviewing the Balassa's integration model

Here recall the Balassa(1961)'s basic paper with its five implementing steps –(i) *free trade area*,(ii) *customs union*, (iii)*common market*, (iv)*economic union*,(v) *economic and monetary union* – and let us simply emphasize strengths and weaknesses of. First, Balassa proves a strong economist since items of his language were able to be literally 'imposed' to the EU's leaders and papers issued ever since -- i.e. expressions like 'economic union' or 'monetary union' did not belong to the Union's slang before being used by this 'classic'. Then, the model itself has met no serious retort so far.

I equally believe there is to be mentioned another aspect for this paper's strengths – this might be even similar to that old Ricardo's intuition on the international market coming to be born several decades later than his time. This is about the 'monetary union'. Or, it was in 1961, when the author was arguing that the Union would need a monetary union, and that was a special issue. Why? Because of two things. The one is that pleading for a 'monetary union' equalizes the blame for the international monetary order that is just the other aspect: this order was in place much more than any before time or than even today. At that time, the Bretton Woods international Agreement had started in 1944 and was coming to its end not less than one decade later, in 1971. Once more, in 1961, the international monetary system (IMS)<sup>1</sup> was well working and few were the ones doubting its performances (Cross 1989<sup>2</sup>).

But then there comes the other part, the one of weaknesses for Balassa. And even on the same monetary issue. More precisely, criticism on that paper could start where considering the monetary union phase as the last one in fulfilling integration – all agree that integration is still far from being ended today; some even argue that this step was rather forced to, being implemented too early.

Another criticism stays related to the monetary union as well: if it had been like in the Balassa's view, we could identify this last phase with the period of the common currency implemented that started in 1999 (or, let's admit it, in 1992, when Maastricht Treaty). Or, reality is much different than this. Briefly, the common currency couldn't arise without its previous 'European Monetary System ' (EMS / 1979-1999) and the last couldn't be either, without the previous attempt of 'Monetary Snake' that started even the year of the Bretton Wodds Agreement's bankruptcy (1971). Enough for arguing that the real monetary union phase has been longer than earlier

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<sup>1</sup> That we will come back to in the below lines.

<sup>2</sup> The author mentions some alternatives to the Bretton Woods Agreement IMS, among which the hypothesis of bilateral agreements between States settling exchange rates' target zones of floating for currencies in question.

foreseen or even that it wasn't just a phase as in the Balassa's view – finally, that such a model of 'phases' would no longer be valid.

Since the early 70ies the starting monetary approach dealt with the other stages, and especially with the one related to *common market*. The last even could differently qualify than as a 'phase', or 'stage', or implementing step. In such a view, this 'phases' outline fails to be confirmed by what happened in the region since the early 60ies. There even comes to be noticed that this model shares between an early part – the one formed by free trade area and customs union – that confirms the author's foreseeing, and the other one that appears increasingly 'fogged' to the author.

Here let me add two ideas. First, it is true that the Balassa's paper of 1961 has not been retorted by any other author or group of authors offering a new vision on the EU integration programme in a similarly valuable work, paper or series of papers. The other idea is that, despite such a situation, the 1961 model had to be criticized and such critics are always 'healthy', as scientifically – no critics would be just: 'no further studying'.

#### 4. Reviewing the integration concept

But a full criticism on such a model would end by just a new outline presumably able to replace that 'phases' vision with something else as similarly credible. Or, let me here advance such a view in the following simple table-scheme.

INTEGRATION <sup>1</sup>		
critierion	INCIPIENT	ADVANCED
basic structure	international	unique-common market
commandments	free trade area customs union	convergence optimum currency area

This table-scheme above depicts integration as formed by two (also) phases or parts: (a) incipient and (b) advanced parts integration. Roughly superposing this simpler view on the former and old model of Balassa, the *incipient integration* could comprise the *free trade area (FTA)* and *customs union* steps, whereas the *advanced integration* would identify to the rest of development, but this is differently viewed here. The two here have (i) basic structure – which is one for each part -- and (ii) commandments – which are two for each part. There can be here found that integration would be just *internationalizing* only for its incipient part, whereas the concept of *common market* is here differently considered than in the Balassa's model. The idea here is that common market is as dominating the advanced integration as

<sup>1</sup> See also Andrei (2014),p. 98.

internationalizing appears at the same for the incipient part – in other words, the two concepts are equally assessed for integration.

Last, but not least, the equivalents for free trade area (FTA) and customs unions (in the incipient part of the process) are, respectively, *convergence* and *optimum currency area* (for the other advanced part). Or, this is enough for noticing the conceptual difference between incipient and advanced integration parts, as the one between the FTA-customs union and convergence-OCA couples. Actually, the forthcoming parts of integration for the early 60ies (i.e. the incipient part) and for now, in the second decade of the new 21<sup>st</sup> century (i.e. the other advanced part) were differently, even paradoxically viewed by the two corresponding generations. So it was paradoxically clearer for the early 60ies what was going to happen at that time than it is now for what it is expected to happen. Thing is that all these are not because the current generation would know less about integration, but because circumstances are more complicated and special today – there is rather no comparison between *FTA-customs union* (rather just legal descriptions) and *convergence-OCA* (a couple of theoretical concepts not unanimously agreed).

Or, let us here underline some precisions made. This paper does not compare to the one of Balassa (1961) the way that the above view on integration might more easily be retorted. But let me also defend my arguing. In the first place, this might be partly similar to the old ‘stages vision’ – here and now with two stages, instead of five --, but there also are two more aspects. The one is that our here phases appear not as ‘separated’ from each other than in the old model – e.g. even the customs union (the incipient stage) can prove some OCA (later stage) capabilities.

The other is that the EU’s history could more easily be found as divided into our two parts than it is the case of the old five stages image. In my opinion, the EU’s monetary history here is more helpful, i.e. whereas the ‘monetary Snake’ (1971-1979) can still identify with incipient integration, then EMS and all the more the common currency belong to advanced integration.

There concomitantly are more arguments for this new conceptual proposal – and this is for the first time here that we attempt a largest view – the EU and more than that -- on integration. So, it is not only the EU’s history that makes such a difference. In Europe there still is the ‘*European Free Trade Area*’ (*EFTA*), which is roughly the same age with the EU, but now still exists rather formally – so do the other non-European States formations. Roughly, there is to be claimed a difference between EU (i.e. the EU type integration) and the rest of States formations world-wide (the other integration type that spreads on northern Africa, Middle East, Central and Latin Americas etc.) and might be claimed by more than hundred States

world-wide. Or, this difference – that re-composes the whole view on integration – is the one for which the EU includes incipient integration and for the other integration type this is the whole that is undertaken.

One more aspect is that the non-EU type of integration is the one that can more easily be left by member States, when national interests and/or other circumstances require as such, so this type is more easily and often exposed to disruptions. The EU case is much different issue: both the member State and Union are too much affected by any initiative of such a kind, the way that there can be mentioned no case so far, not even during the recent crisis.

## 5. Some of the advanced integration issues

### 5.1 Convergence and optimum currency area

Let me mention that expression like *advanced* or *incipient integration* haven't been used so far by anyone else in the given context of integration. Plus, there has been already mentioned a new type of relationship between *convergence* and *OCA*. It has been already seen above that the difference between this couple of concepts and the other couple of concepts – that was FTA and customs union for the incipient integration – is significant. The latter concepts were just two successive phases, whereas the previous *convergence* and *OCA* wish both identify with the *integration* itself. Besides, both relate to the macroeconomic scale, as compulsory.

*Convergence* suggests some more *dynamic*, as compared to *OCA* that claims stability as a *state*. Both are theories 'coming from outside' to join integration, a fact that proves that the last succeeded to strengthen the today economic debate. As for instance, *convergence* was previously appropriate when debating on significant recovery of some countries in the war's aftermath (e.g. Germany and Japan /Solow 1956) on the explosive development of some former underdeveloped economies in Middle (e.g. Qatar, Kuwait etc.) and Far East (Singapore, Malaysia, South Korea etc.), as well as on the larger problem still regarding underdevelopment – actually, opinions split enough here (Andrei 2014, pp. 101-103)<sup>1</sup>. At the other end, in the integrative context issues get not much different than in general, e.g. inflation, including money depreciation, together with its determining and influential factors, indicators that prove able to 'converge' on different speeds, '*catching-up*' phenomena, types and criteria (of convergence) and so on (Andrei 2014, pp. 97-103).

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<sup>1</sup> In which Solow and Mankiw, as convergence believers, are contradicted by Frankel, Myrdal and others.

On its part, *optimum currency area (OCA)* had previously met the post-war<sup>1</sup> and post-Bretton Woods currency area phenomena (Guitton & Bramoulé 1987). Recall that the hard currencies claiming their (currency) areas were the five that were forming the IMF's SDR currency basket before Euro<sup>2</sup> and these areas were (ex) tending to cover the planet, here including during the post-communist transition of the central and east-European countries (Andrei & Andrei 2009). A context in which the Europe region was finding itself in another special circumstance: i.e. Western Europe was a Deutsche Mark currency area, 'subordinating' currencies like French Franc and Pound Sterling which were keeping their currency areas outside the European region. Then, Euro came up – swallowing Deutsche Mark, French Franc and many other national currencies and so wiping out the previous regional monetary picture, but equally the world-wide corresponding currency areas picture – an expression like 'Euro area' or 'Euro-zone' comes to be improper in this above context; in reality, the multi-country region afferent to the newly born European common currency gets assumed to be much larger than the Euro-Zone common and current understanding and differently significant at least partly. Confusion between the two understandings of the *Euro-area* comes especially from the over-border sizes of the two. And the true similarity (i.e. with not confusion produced at all) consists in the OCA essence of 'no asymmetrical shocks' (Mundell 1961).

## 5.2 The proper story of common currency

Recall from above the truth that the EU's monetary approach – i.e. the full story of Euro – did start in 1971 -- when US\$ crisis of three successive devaluations and gold convertibility ever-since suspended by the American monetary authority, so breaking the international Bretton Woods Agreement of 1944 – immediately after the US\$ started floating (i.e. essentially and even impressively depreciating). This was a new agreement that was called '*Monetary Snake*' that lasted under different successive forms and rules up to the end of the same decade. Actually, on the one hand European governments and central State banks not only did act quickly, but previously they even had to; on the other, they were forced to see that their area was yet proving dependent on the US – at that time, when the US started accusing their weakness, as much as previously, when the last had been strong at the great war landing or afterwards, when they started Marshall Plan. These prove enough to conclude that the Snake's specific

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<sup>1</sup> Guitton & Bramoulé (1987) mention that the Pound Sterling's area had arisen in early 30ies, just after this hard currency was gold-convertibility ever since suspended.

<sup>2</sup> US Dollar, Deutsche Mark, Japanese Yen, French Franc and British Pound Sterling.

weaknesses were coming by far more obvious since preserving such dependence as a prolonged handicap of the region.

That apparently was the next EU's monetary movement: turning the old *Monetary Snake* into the *European Monetary System (EMS)* in 1979, the new System forever eliminating the American monetary reference in favor of a new collective European one. And this was, more exactly, just one facet of such a changing. Besides leaving the American monetary representativeness base, other two facets came to be even more substantial. The one was linked to the *International Monetary System (IMS)* concept, lastly academically related to Triffin (1973), i.e. even through the EMS title, Europeans did not hide that their undertaking was, at least indirectly, related to either the older Bretton Woods Agreement (1944-1971/ Triffin 1964), or even to the previous Gold Standard (1880-1931) many decades before (Rueff 1973). Or, the IMS<sup>1</sup> concept was already controversial at that time: i.e. on the one hand, both previous IMSs had similarly crashed, on the other, McKinnon (1993) revealed that, despite the huge criticism upon the Bretton Woods system, EMS (1979-1999) had essentially brought nothing new.

As in detail, McKinnon (as an American professor), in his article, shows on 'two columns' that the two international monetary systems had all: (i) *nominal anchor* (those were the US\$ and German Mark), active and supporting (ii) *international financial institutions* (those were IMF and European Monetary Institute, later on turning into European Central Bank) with their corresponding (iii) *account currencies* (those were Special Drawing Rights and European Currency Unit, as respectively) and (iv) *fixed exchange rates*. But, finally, fixed exchange rates are always appropriate to *metal parities*, and never to *fiat money* that European currencies were in the postwar era. In other words, the McKinnon's series of conclusions was something like: (a) this type of IMS is perishable by rule (as it had always been), (b) all the more, EMS was inappropriate for fixed exchange rates missing the parity notion and so its disaster was imminent, (c) the last being expected for each national currency becoming a 'nominal anchor' against the other national currencies within the system that put the previous in a specific unbearable pressure, finally (d) there was no any IMS rule that the 'two IMSs' were submitted to since their similarity here revealed – but, the *Optimum Currency Area* theory, as more valid theory than the IMS one. As in more detail, once more, ultimately the EMS was not going to crush, like its previous IMSs of the same type, and that despite its 'no chance' given by the American professor – it was programmatically changed by (into) the

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<sup>1</sup> There was to talk about a valid IMS when: (1) a solid unique basic value supporting an international price system, (2) a remaking member States' external balance of payments equilibrium mechanism, (3) fixed exchange rates and (4) law enforcing of the system.

new *common currency* that was and is Euro. Actually, it hasn't been like the 'IMS type crashing', but who could still argue that it wouldn't be?

There comes the other EMS' facet: i.e. the last was not qualitatively different than the next-coming common currency. Fixed exchange rates, taken by EMS, according to all rules, here including of IMS, were essentially banning or harming monetary policies and clearing the way for the new common currency and its unique (next coming) monetary policy working since 1999.

The conclusion of this part would once more be that of having a new and common currency for Europe that was anyway expecting its hard times of future – that had already confirmed presence after 2002 --, but previously such undertaking had 'looked back': rejecting the old *nominal anchor* experience of OCA and/or IMS types; an experience that never was any option for European monetary approach and/or for integration.

### 5.3 Two more current aspects of OCA

Just keeping aware of that our story here is anyway an unfinished one. A lot of events is expected on the ground, whereas, on the thinking about area convergence and OCA are expected to expose more correlations. As for this paper, there might be just two significant aspects to be underlined about OCA.

The first one succeeds a significant comparison between integration – in its advanced phase here and now considered – and the older theory of international trade above described. Recall how the old classic-neoclassic and large theory was claiming that 'open economy is better than autarchy' when 'nations specialize on industries' in the international area, absolute and comparative advantages cooperate to improve economic development, employment and life standard in the home area. The aspect here is retorting such an idea in a brand new context: OCA requires, on the contrary, '*all industries be functioning all over the area*', as just an apparently '*new autarchy*'. But in a more deepened reality this *integration* is neither *internationalization* any longer, nor *internationalization of such a type* that ever brought comparative advantage and differentiation in. This is, instead, a region of several nations still approaching each other in a process that plays on a(n even temporary) closed (i.e. closing) economy, against the rest of the world.

The other aspect has also been described and deepened by Andrei (2009 & 2010): *fiscal union* – accompanying monetary union already reached. There is as much responsibility in several authors' arguing on the need created for a fiscal union as 'physical' political resistance in the European area against any unifying fiscal systems – easy translating by 're-centralizing' the Organization. As the result, *fiscal union* isn't yet the here



expected subject of debate, as theoretically the 'lonely way' on achieving European integration.

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## **LANDMARKS OF YOUTH LABOR MARKET DEVELOPMENTS IN THE KNOWLEDGE-BASED SOCIETY**

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### **Abstract**

*In recent decades, a continuous process of transition of the world economy from the development based on traditional factors to the one based on knowledge occurred. Development of the knowledge economy leads to changes in the labour market demand: new skills and abilities are required. With the introduction of new technologies the demand for highly skilled workers increased, especially highly skilled in information and communication technologies (ICT), while the demand for low-skilled workers decreased.*

*Although the young people have knowledge regarding new media tools and virtual environments, indispensable tools to the labour market in a knowledge-based economy, their unemployment rate is still double than the adult unemployment rate in some EU countries.*

*This paper presents a brief analysis of the problems faced by young people in the labour market, of the measures adopted in various countries in order to increase the role of education and training, both basic and continuing so as to increase the labour market insertion of young people in Romania and the EU-28 countries.*

**Keywords:** knowledge-based economy, youth unemployment, new skills, education and training

**JEL Classification:** J13, J21, J42, O31

### **1. Introduction**

In the framework of an increasingly higher level of unemployment, the youths find it more difficult to find a job, and many of them could decide to extend their studies or to take up studying again. These could be an investment for the future provided that they obtain matching competences.

Nevertheless, the reality is that many youths do not take part either to labour or to studies.

The unemployment rate among youths (over 20%) is twice as high than for the entire active population and almost three times higher than the rate for the adult active population. The permanent job diminishment during the crisis affected disproportionately the youths, as they are overrepresented in the category of temporary contracts. Even though temporary contracts could represent a first step towards more stable forms of employment, this fact might create segmented labour markets, the youths being put on hold in the inferior segments of the latter, benefitting of less training on the job, lower remuneration levels and worse perspectives with respect to employment and long-term career.

The development of the knowledge-based economy leads also to changes with respect to the labour force market demands: new competences and skills are requested. As result, in order to maintain Europe's competitive position the reforms of the educational and vocational training systems are essential. The future jobs require individuals with high-skill level.

In a knowledge-based economy, the ability to permanently innovate is the key to success in business. The international statistics indicate the fact that amongst the top innovative companies at global level are Apple, Facebook and Google, companies with excellent financial results. But all these companies have a very high number of young employees, the average age of the employees being of 33 years for Apple; 26 years for Facebook, and for Google the employees have an average age of 31 years.

The youths have knowledge about the new media instruments and the virtual working environments, which are indispensable tools of the future labour market. The online video technology, blogs, podcasts and software allowing for interaction are all instruments that support productivity, when they are used efficiently.

If the economic and political developments of the decade 2011-2020 are taken into account, especially from the viewpoint of the Europe 2020 Strategy, then at national and EU level, the Statement from Copenhagen from the year 2002 should benefit of a new incentive because the Copenhagen Process is an integral part from the strategic framework "Education and Training 2020".

The elements of the economic impact of the knowledge-based economy on the youth labour market are presented in the following paper.

## **2. The economic impact of the knowledge-based economy on the youths' labour market**

The knowledge-based society represents a new stage in the human civilisation, a new and qualitatively superior living standard that involves the intensive use of information in all spheres of human activity and existence and with a major impact from the economic and social viewpoint.

Already in 1996, in his book "The Effective Executive", Peter Drucker presented the differences between the manual worker and the so-called "knowledge worker" who works mainly with his mind, not his hands, thereby generating ideas, information, and knowledge. Still, the concept of "*knowledge-based economy*" was popularised by Peter Drucker as early as 1969 in his book "The Age of Discontinuity".

The development of the knowledge-based economy leads also to changes in the demands on labour market: new competences and skills are requested. With the implementation of new technologies, the demand for high-skilled workers increased, especially for those with high-skills in the information and communication technology (ITC) and the demand for low-skilled workers decreased.

Under the conditions of changing the preferences of the consumers and of the technologies for adjusting and maintaining their competitiveness, the companies require corresponding organisational structures for skilled labour force and a management apt to meet these new challenges. These changes have a significant impact on the jobs' structure and on the required skills, which leads to increasing the educational levels.

Training workers in order to be competitive in the knowledge-based economy requires a new model of education and vocational training, a model for lifelong learning. The speed of changes in the knowledge-based economy has as effect also the much swifter depreciation of skills. In order to meet efficiently these changes, workers must be able to update permanently their competences. In this context, the companies cannot rely exclusively on new graduates or on the new entries in the labour market as main source for new skills and knowledge. Therefore, it is necessary for schools and other training institutions to prepare workers for continuing learning. Lifelong learning is essential for allowing employees to be competitive in a global economy.

Investments in human capital are essential for the economic increase. Also, between the quality of education and hence of the labour force and the economic growth is a close link (Barro 2001, Hanushek and Kimko 2000).

The impact of education on economic growth varies from country to country, depending on the measures and policies adopted under the concrete conditions from each country. In developing countries, decision-factors must make sure that youths gain a language that is more developed than the

local one, best option being the language used at international level. The statistics realised at international level indicate that in the knowledge economy, mathematical and scientific competences are important and have a positive effect on the economic growth, and that the correlation between them and economic growth is stronger than the correlation between economic growth and the conclusion of upper-secondary education, or higher education.

As result, the participation of individuals to the knowledge-based economy presupposes the continuing updating of skills, and lifelong learning shall turn, thus, into a permanent concern.

Jean Charest, the prime-minister of Quebec alleged that “The world enters into a new era characterised by a major deficit of talents and the failure of solving it shall determine the reduction of economic growth at global level and shall definitively change the way in which we approach the challenges in the labour market”.<sup>1</sup>

The end of the 20<sup>th</sup> century and the beginning of the 21<sup>st</sup> has highlighted the need of adopting new measures/reforms with respect to training youths for a labour market in the knowledge-based economy.

Many employers are sceptical about employing youths in the labour market with respect to their ability to use the knowledge gained in school for meeting the practical challenges generated by the job. Also, they are mistrustful about the social aptitudes and professional ethics of the youths, aptitudes that the personnel needs in order to develop efficiently the activity. Thus, employers maintain a reserved position regarding the investment in training youths, as long as on the labour market adult employees are available.

Nowadays, employers show a high level of concern with respect to the deficit of specific competences of the candidates, even though only one out of five employers develops training and development programmes for the employees to cover the existing deficit. Moreover, only 6% from the employers collaborate with educational institutions for suggesting the development of educational programmes that would support covering the skilled personnel deficit on the labour market

Another concerning factor on behalf of the employers and at the same time a hindrance on the way of employing youths in the labour market is the lack of opportunities and competences required in the labour market which often are not matched by those achieved in the educational system.

In their work from the year 2008: „*Skills for success in the knowledge economy*” Cochran and Lekies have synthesised from the specialised

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<sup>1</sup> *Young Generation, the Success of the Economy of the Future*, ManpowerGrup, pp 2.

literature the required competences for youths so as to have success on the labour market of the 21<sup>st</sup> century, that is:

➤ *Thinking abilities*: critical thinking, problem resolution, creativity and innovativeness

➤ *Communication*: the ability to communicate efficiently, by using various methods and instruments available in today's environment;

➤ *Teamwork and leadership*: interpersonal skills for working efficiently in a team and of leading by cooperating, motivating and putting to good use the strengths of the collaborators;

➤ *Continuing learning and self-management*: continuing improvement of the capacities by assuming responsibilities in setting-up objectives, improving presentation skills of the initiatives;

➤ *Adopting technology and applications*: a strong technological skills background, including concepts and operations, selecting adequate instruments, as well as problem-solving by using the adequate technology;

➤ *Professionalism and ethics*: to prove personal responsibility and efficient working skills: punctuality, productive working with others and at time, as well as managing efficiently the work volume.

International statistics show that youths start working by the age of 12 years of age in informal jobs (such as care services for small children or jobs within the household). The employment probability with the formal sector increases with the age.

The specialised literature suggests that the experiences of youths on labour market can be both negative and positive. The most frequent arguments against the employment of teenaged labour force refer to diminished school performance, to educational, social and psychological negative outcomes. On the other hand, some researchers consider that work provides for development opportunities of teenagers, respectively teenagers can better understand the functioning mechanisms of the labour market (Hamilton & Hamilton, 2004; Levine & Hoffer, 2006). Also, they contribute to developing the social capital: informal networks are created and interactions with adult models encouraging good working habits occur (Whalen et al., 2003). Sometimes, the competences gained on the job can bring about another benefit that is increasing the interest in/for school.

In order for the labour market experience of the teenager to be the background for the future success on the job, the employers should highlight the factors contributing to the positive working experience and to minimise those that create negative conditions.

These desiderates can be achieved also by means of the youths' programmes.

The programmes for youths can be an important resource in training youths for the labour market. By their nature, the youth programmes can

contribute to the availability of labour force, irrespective if they provide, or not, for specific opportunities targeted towards training the labour force. By such programmes, the youths develop valuable skills such as teamwork and problem solving, developing social competences, but also linking to adult models.

As opposed to school, the youth programmes are characterised by voluntary participation, so that youths are faced with different levels of motivation and of interest. The high levels of motivation and of interest ensure that the youths are involved in achieving the objectives of the programmes, assume their ownership and remain connected around these programmes enough time for gaining the benefits that the participation provides for them. This ensures for the programmes dedicated to youths an ideal position in training labour force in accordance with the development needs of the teenagers. They have very often autonomy and flexibility for creating a curriculum that is adjusted to the community. All these characteristics make them very suitable to play a role in training the young labour force.

The current models of programmes have at the basis the concept of prosperity, and of promoting the positive development for all youths. The programmes for achieving the objective of a quality youth are characterised by the positive interaction adult-youths.

The poor insertion of the youths on the labour market is determined by many factors, among which:

- ❖ the lack of information, of access to social networks and the absence of links between youths;
- ❖ the lack of relevant job competences;
- ❖ the lack of jobs requiring entry level competences;
- ❖ the lack of experience and recommendations that would increase the confidence of the companies in the youths with employment potential.

In this context, the participation rate of the youths to the labour force continues to have a descending trajectory: after a decline from 53.8% to 50.1% between 1998 and 2008, the diminishment continued reaching 42% in 2014.

The unemployment among youths was intensified also in the year 2014 in the developed states. By the end of 2014, in Greece the majority of youths (56.0%) did not have a job, and the percentages were almost as high in Spain (53.1%). The unemployment rate among youths in Portugal reached 38.6%, and in Romania 23% (Eurostat).

The consequences of the unemployment among youths affect directly the fluctuation level of the temporary personnel on the labour market. Gaining experience is reflected both at individual level, but also in the development degree of the labour market at national level.



At the level of the European Commission, it is considered that the youths are the most threatened category on the European labour force market, and the risk of their marginalisation is increasingly higher. This fact has immediate consequences, but also implications on medium- and long-term. The deepening of the crisis on the labour force market can leave its fingerprint on a large part of an entire generation of youths, affecting the employment of the labour force, the productivity and social cohesion, both for the present and the future.

In the year 2020, the pupils and students of today shall be at the beginning of their career, having at least 30 years of professional life before them, some of them in professions that today don't exist, and others in professions that are, perhaps, on the extinction path.

Consequently, the improvement of the educational and vocational training capacity (EVT) turned into a necessity for meeting in this way the changing requirements of the labour force market. But, for integrating the needs of the changing labour market in supplying EVT on long-term, it is necessary also a better understanding of the emerging sectors and competences and of the changes that will affect current occupations.

An important role in increasing the awareness degree with respect to the significance of EVT both at national and European level was played by the Copenhagen Process<sup>1</sup>.

The impact of the Copenhagen Process on the national policies with respect to EVT was swift and strong, and it generated in-depth reforms, among which could be mentioned:

- i) the development of the national qualification frameworks in view of applying the European Qualifications Framework (EQF);
- ii) the shift to an approach based on the outcomes of learning: by changing the perspective from a learning process centred on supplying information to a learning process oriented on outcomes.

The relevance of education and vocational training (both education and initial vocational training (EVT-I) and continuing education (CVET) for the labour force market and the capacity of professional insertion of the EVT graduates should be increased by various measures such as shown in the "Bruges Communiqué regarding the intensification of the European cooperation in the field of education and vocational training for the period 2011-2020"<sup>2</sup>:

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<sup>1</sup> The Statement of Copenhagen from 29-30 November 2002 launched the European strategy for increasing cooperation in the field of education and vocational training (EVT) called, in general, the "Process from Copenhagen".

<sup>2</sup> *Support for education and vocational training in Europe: COMMUNIQUE FROM BRUGES*, The Communiqué of the European Ministers responsible in the field of education and vocational training, of the European social partners and of the European

➤ “the authorities from the participating countries – at national, regional, or local level – should provide for opportunities for increased cooperation between schools and enterprises in view of improving knowledge of the teaching staff with respect to working practices, on one hand, and the general competences and skills of the trainers on the other hand;

➤ The participating countries should promote partnerships between social partners, enterprises, education and training providers, labour force employment agencies, public authorities, research organisations and other relevant stakeholders for ensuring more adequate transfer of information about the needs on the labour market and better compatibility between these needs and the development of knowledge, skills and competences. The employers and social partners should make efforts in order to define with clarity the competences and skills needed on short-term, and on long-term inside the sectors and in their entirety as well;

➤ The EVT curricula should be oriented on outcomes and provide for more adequate answer to the needs on the labour market. The cooperation models with the enterprises and professional organisations should approach this aspect and supply institutions in the field of EVT feedback with respect to the professional insertion capacity rates and also with respect to the labour force employment rates among EVT graduates;

➤ for improving the quality and relevance of EVT, the participating countries and, especially, EVT suppliers should put to good use the feedback received from the professional guidance services with respect to the transition of EVT graduates to the professional life or to subsequent learning;

➤ on the job learning developed in partnership with enterprises and with non-profit organisations should become a characteristic of all initial EVT courses;

➤ the participating countries should support the development of apprenticeship-type training and encourage the increase in the awareness degree with respect to this aspect”.

In a knowledge society, a particular emphasis should be laid both within EVT-I and within CVET on promoting innovation, creativity and entrepreneurial spirit, as well as on using ITC.

An important role in developing the knowledge-based economy and, implicitly, for increasing the insertion degree of youths on labour market within it, play the transversal objectives of education and vocational training.

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Commission as result of the Summit from Bruges in 7 December 2010 regarding the review of the strategic approach and of the priorities of the Copenhagen process for the period 2011-2020. Luxemburg: the Office for Publications of the European Union, 2010.

The insertion of youths on labour market within a knowledge-based economy can be efficiently achieved if a series of measures are adopted, from which we mention:

➤ *identifying optimum solutions for the issue of youths on labour market.* In this respect, each generation has the responsibility to guide the training of the next generation with the purpose of harmonious economic development. Attaining these objectives can be achieved by concluding partnerships with governments, educational institutions, civil society and even with the youths searching for a job;

➤ *investment in improving the information resources for youths;*

➤ *realising investments intended to increase the access of youths to training programmes* for developing job specific competences. An important role in this direction play educational and vocational institutions, but also employers (having the role to provide counselling and influence for better educational training, that is aligned to the real needs and opportunities on the contemporary labour market);

➤ *creating and implementing training programmes* that would stimulate gaining experience;

➤ *commitment to youths:* sustaining by training programmes the provision of jobs and mentoring. The training on the job and mentoring can represent an important element within an efficient strategy for meeting the talent deficit and an innovative way of discovering, developing and managing the talent resources that the companies require in order to meet their own business objectives;

➤ *realising investments dedicated to diminishing the jobs deficit at entry-level;*

➤ *realising investments in educational entrepreneurship programmes in the university environment and in vocational centres.* Promoting entrepreneurship is an indispensable component for ensuring the sustainable economic development. Promoting entrepreneurship among youths can stimulate them directly, at the same time influencing positively the generations to which they belong and the communities where they develop their activity.

### **Conclusions**

Attaining the general objectives of the Sustainable Development Strategy of the European Union or of the Member-States and of training youths with the necessary competences of the knowledge-society can be reached by involving also youths in the actions that will be undertaken for this purpose.

The youths of today means hope and potential for the future. The youths must be more mobile, more multicultural and more technologically savvy than before.

Among the advantages of using young labour force in attaining the knowledge-based society can be enumerated:

- the employment of youths in sustainable jobs ensures the coherence of economic development and the increase of the local and internal markets' potential;
- promoting youths in attractive jobs (new jobs created based on IT-technologies and knowledge-theory) leads to increasing productivity and perspectives for at least maintaining the competitiveness at the level of economic agents (on the specific market);
- youths' labour market based on its performances supports sustainable economic growth;
- the employment structure, based on a young labour force component, at least stable if not on increase and on a training level superior to the average at the level of the labour market leads to the increase of sustainable economy;
- structural unemployment among youths is based on an employment deficit in classic, historical jobs and represents the most severe issue of the current labour market; if the structural deficit of the young labour force on trades and professions is based on unemployment equivalent to the new professional specialisations generated by the educational process, in order to create the sustainability of the economic development is necessary to absorb foreign direct investments based on introducing superior technology generations, comparative to the ones already existing at the level of the business environment;
- unemployment among youths is the result of an increasingly superior component of wage motivation. Failure to remunerate accordingly jobs with future perspectives slows down the process of economic development, thus eroding the basis of sustainable growth.

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## **COUNCIL OF EUROPE, EUROPEAN COUNCIL, COUNCIL OF THE EUROPEAN UNION -CONCEPTUAL AND INSTITUTIONAL DISTINCTIONS-**

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### **Abstract**

*We shall analyse throughout this article the structure and mechanisms of the Council of Europe, European Council and Council of the European Union, the goal being identifying the characteristics and distinctions between these entities, given their statutes and different roles, without claiming we hereby exhaust this subject, not infrequently brought to public communication space.*

*The first and most important distinction between the Council of Europe, on the one hand and the European Council and the Council of the European Union, on the other hand, is that, while the Council of Europe is an international organisation, the European Council and Council of the European Union are EU institutions in turn considered to be an international super-state organisation with a sui generis construction.*

*As citizens of Romania, a member of both the Council of Europe and of the European Union, we have the right and duty to know the meaning of these terms, to understand correctly messages on the subject addressed to public opinion, but also to be able to adequately express ourselves in the internal, European or international public space, as appropriate.*

**Keywords:** *Council of Europe, European Council, Council of the European Union, international organisation, institutions.*

**JEL Classification:** *K00*

### **1. Preliminaries**

The analysis of distinctions between the Council of Europe, European Council and Council of the European Union is an issue which has

also been the subject of other specialized studies and articles,<sup>1</sup> given the confusion arising from the similarity of names of these entities, sometimes expressed even in public communication space.

As we know, the **Council of Europe** is an international, intergovernmental and regional organisation uniting all democratic states of the European Union and other countries in Central and Eastern Europe. It is independent of the European Union and is different from the European Council or the Council of the European Union.

The Council of Europe is headquartered in Strasbourg.

Romania's accession to the Council of Europe took place on October 7, 1993.

**European Union (EU)** is an economic and political union, composed of 28 countries, operating through a system of supranational independent and intergovernmental institutions which make decisions by negotiation between Member States. As of December 1, 2009 the date Lisbon Treaty entered into force, the European Union has international legal personality and can conclude treaties. In the legal doctrine, the European Union is considered to be a *sui generis* construction, characterized by *inability to be assimilated to an international organisation, even from the perspective of the Lisbon Treaty* and its institutions are deemed as having a *legal in all particular nature, which does not allow us to assimilate them to the existing institutional patterns.*<sup>2</sup>

The headquarters of the European Council and of the Council of the European Union is Brussels (Belgium).<sup>3</sup>

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<sup>1</sup> In the same vein, see: Oana Mihalache, 10.12.2014, *Care este diferenta dintre Consiliul European, Consiliul Europei si Consiliul UE. Misiune, organizare si caracteristici*, article available on the website: <http://www.wall-street.ro/articol/Politic/176736/care-este-diferenta-dintre-consiliul-european-consiliul-europei-si-consiliul-ue-misiune-organizare-si-caracteristici.html>, accessed on 30.04.2015.

<sup>2</sup> *Uniunea europeana si organizatia internationala. Studiu comparativ de drept international* - Antonescu Virginia Madalina, January 20, 2010, Category: Law and Legal Sciences, Lumen, [www.edituralumen.ro](http://www.edituralumen.ro), [www.librariavirtuala.com](http://www.librariavirtuala.com), Author: Virginia Madalina Antonescu, *Uniunea europeana si organizatia internationala. Studiu comparativ de drept international*, Iasi, 2009. 550 pages, available on the website: <http://edituralumen.ro/2010/01/uniunea-europeana-si-organizatia-internationala-studiu-comparativ-de-drept-international-antonescu-virginia-madalina/>, accessed on 03.05.2015: "Thus, it seems hazardously to us to qualify the EU as being wholly a federal or confederal system, a super-state system or a system fully belonging to an international intergovernmental organisation. (...). The premise we start from herein, i.e. the premise of the original legal nature of the EU institutions, is intended to be a further neo-functionalist approach, according to which the Union should adapt institutional mechanisms, structure and policy objectives to progressively achieve the political integration of Europe."

<sup>3</sup> European Council, Council of the European Union, available on the website: <http://www.consilium.europa.eu/en/contact/>, accessed on 03.05.2015.



Romania's accession to the European Union took place on January 1, 2007. We consider that the first and most important distinction between the Council of Europe, on the one hand and the European Council and the Council of the European Union, on the other hand, is that, while the Council of Europe is an international organisation<sup>1</sup>, the European Council and the Council of the European Union are EU institutions in turn considered to be an international super-state<sup>2</sup> organisation, *legally and politically original in nature*<sup>3</sup>.

## 2. Council of Europe

Council of Europe was created in 1949 as “*a force for peace and cooperation, rooted in our common heritage, in human rights and democracy*.”<sup>4</sup>

The Council of Europe is an organisation founded on the principles of respect for human rights and fundamental freedoms, democratic values and the rule of law values and currently has 47 member states<sup>5</sup>.

Romania's accession to the Council of Europe<sup>6</sup> (CoE) occurred following the Decision on October 4, 1993 made by Resolution no. 37/1993 of the Committee of Ministers of the CoE, under which our country was invited to join the Council of Europe. On October 7, 1993 Romania signed statutory documents and the European Convention of Human Rights and

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<sup>1</sup> *Convention of 23 May 1969 on the Law of Treaties*, Concluded at Vienna, Issuer: United Nations, Published: Brochure of May 23, 1969, available on the website: <http://www.monitoruljuridic.ro/act/conventie-din-23-mai-1969-cu-privire-la-dreptul-tratatelor-emitent-organizatia-natiunilor-unite-publicat-n-brosura-36591.html>, accessed on 03.05.2015: “*“international organization” means an intergovernmental organization*”. For further reading, see: Dan Vataman, *Drept European, Organizatii europene și euroatlantice*, C.H. Beck, Bucharest, 2009, Cap. I. *Elemente definitorii ale organizațiilor internaționale interguvernamentale*, pp. 1-18.

<sup>2</sup> Prof. univ. dr. Verginia Vedinas, *Drept administrativ*, 8<sup>th</sup> edition, reviewed and updated, Universul Juridic, Bucharest, 2014, p. 24.

<sup>3</sup> Dr. Madalina Virginia Antonescu, *Institutiile Uniunii Europene in perioada Post Nisa, O perspectiva de Drept constitutional*, Lumen, Iasi, 2009, p.15: “*EU institutions have an original legal and political nature as they cannot be permanently and exclusively classified in one of the existing legal and political patterns, (...), the European Union itself has an original legal and political nature*”; p. 61: “*EU institutions are bodies entrusted by EU Member States under international treaties to exert “political power” at European level and also in relation to Member States*”.

<sup>4</sup> See: *Acte semnate de Romania sub egida Consiliului Europei*, available on the website: <http://www.clr.ro/menu1/ce.htm>, accessed on 04.05.2015.

<sup>5</sup> See: *Permanent Representation of Romania to the Council of Europe (Strasbourg)*, available on the website: <http://coe.mae.ro/node/167>, accessed on 04.05.2015.

<sup>6</sup> *Romania's accession to the Council of Europe*, available on the website: <http://coe.mae.ro/node/1252>, accessed on 17.03.2015.

Fundamental Freedoms, at the first Summit of the Council of Europe (Vienna).

As a full member, Romania is represented by the Foreign Minister within Committee of Ministers and by a delegation of 10 representatives and 10 deputies at the Parliamentary Assembly. Also, Romania is represented by a similar delegation within Congress of Local and Regional Authorities and a judge at the European Court of Human Rights.<sup>1</sup>

### 2.1. Role, organisation and functioning of the Council of Europe Institutions.

**Council of Europe Institutions**<sup>2</sup> are: Committee of Ministers, Secretary General, Deputy Secretary General, Parliamentary Assembly, European Court of Human Rights, Congress of Local and Regional Authorities, Commissioner for Human Rights, Conference of INGOs.

**Committee of Ministers:** is the decision-making body of the Council of Europe, in which each Member State is represented by the Foreign Minister. The Committee shall be chaired by rotation every six months by the Foreign Ministers of the Member States, in alphabetical order. The ministerial sessions conduct system adopted in 2003 consists in the organisation of annual ministerial meetings.

**Secretary General:** has the overall responsibility for the strategic management of the Organisation.

**Deputy Secretary General:** has been responsible for implementing the concrete, day-to-day measures needed to support the Secretary General's far-reaching reform agenda, in line with the decisions and priorities of the Committee of Ministers.

**Parliamentary Assembly:** is the deliberating body consisting of delegates of the 47 national parliaments (the number of representatives of each country is calculated according to its population). Parliamentary Assembly meets four times a year in plenary sessions and once a year a meeting of the specialized committees is organised in one of the Member States or in an observer Member State. Each national delegation is composed to reflect the political representation in the national legislature.

**Congress of Local and Regional Authorities:** consists of elected representatives of local and regional authorities or officials directly accountable to them, who meet once a year. The Congress is an advisory body of the Council of Europe and consists of Chamber of Local Authorities

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<sup>1</sup> *Romania si Consiliul Europei*, available on the website: <http://www.clr.ro/menu1/romania%20si%20europa.htm>, accessed on 04.05.2015.

<sup>2</sup> See: Council of Europe, *Organisation*, available on the website: <http://www.coe.int/en/web/portal/organisation>; Ministry of Foreign Affairs, available on website: <http://www.mae.ro/node/1577>; accessed on 05.05.2015.

and Chamber of Regions. National delegations to the Congress must be representative of the various types of local authorities of each Member State.

**European Court of Human Rights:** headquartered in Strasbourg, in the Palace of Human Rights, is intended to oversee the observance of human rights for the citizens of the 47 member states of the Council of Europe which have ratified the European Convention on Human Rights. It should not be confused with the Court of Justice of the European Union, headquartered in Luxembourg, which ensures compliance with European law, the interpretation and application of EU treaties, nor with the International Court of Justice, the judicial organ of the United Nations, headquartered in Hague.<sup>1</sup>

**Commissioner for Human Rights:**<sup>2</sup> is a non-judicial, independent and impartial institution, created in 1999 by the Council of Europe. Its mission is to promote the compliance with human rights in Member States. Its activities are centred around three areas: country visits and dialogue with national authorities and civil society; thematic reporting and advising on human rights systematic implementation; awareness-raising activities.

**Conference of INGOs:**<sup>3</sup> is the main body representing NGOs with participatory status at the Council of Europe. It ensures proper functioning of participatory mechanism and contributes to the affirmation of the role of civil society in the Council of Europe. Conference of NGOs meets in Strasbourg twice a year within the Parliamentary Assembly session of the Council of Europe.

**European Commission - For democracy through law** (Venice Commission):<sup>4</sup> is an advisory body of the Council of Europe on constitutional matters. Venice Commission's mission is to provide legal advice to its Member States and in particular to help those who want to have their legal and institutional structures in line with international standards and experience of democracy, human rights and the rule of law. It also contributes to the dissemination and development of a joint constitutional heritage; it plays a unique role in conflict management, and provides "*emergency constitutional aid*" to states in transition.

The Commission consists of 60 Member States: 47 Member States of the Council of Europe are members of the Venice Commission and other

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<sup>1</sup> See: *Curtea pe scurt*, available on the website: [http://www.echr.coe.int/Documents/Court\\_in\\_brief\\_ROM.pdf](http://www.echr.coe.int/Documents/Court_in_brief_ROM.pdf), accessed on 05.05.2015.

<sup>2</sup> Council of Europe, The Commissioner for Human Rights, available on the website: <http://www.coe.int/en/web/commissioner/mandate>, accessed on 07.05.2015.

<sup>3</sup> The Conference of International Non-governmental Organisations of the Council of Europe, [http://www.coe.int/t/ngo/conf\\_intro\\_EN.asp](http://www.coe.int/t/ngo/conf_intro_EN.asp), accessed on 07.05.2015.

<sup>4</sup> Council of Europe, Venice Commission, *For democracy through law - The Venice Commission of the Council of Europe*, available on the website: [http://www.venice.coe.int/WebForms/pages/?p=01\\_Presentation](http://www.venice.coe.int/WebForms/pages/?p=01_Presentation), accessed on 07.05.2015.

13 countries, including the United States of America, for example. The Commission is working in three areas: democratic institutions and human rights; constitutional justice and ordinary justice; elections, referendums and political parties.

In conclusion, we note that the Council of Europe is an international organisation founded on the principles of respect for human rights and fundamental freedoms, values of democracy and rule of law.

### 3. European Council

The European Council has acquired the EU institution status under the Treaty of Lisbon, signed on December 13, 2007 and entered into force on December 1, 2009.<sup>1</sup>

European Council<sup>2</sup> was created in 1974 as an informal forum for discussion between Heads of State or Government of the EU Member States. Soon, it became the body that sets the objectives and priorities of the EU. Under Maastricht Treaty of 1992, the European Council has acquired a formal status and role – i.e. to provide impetus and to define general political guidelines of the EU. In 2009, as a result of changes introduced by the Lisbon Treaty, the European Council became one of the 7 EU institutions.

As we know, the Treaty of Lisbon (TL) is a treaty amending and supplementing the existing Treaties - Treaty on European Union (TEU - Maastricht, 1992), which will keep its name, and the European Community Treaty (ECT - Rome, 1957) the latter being renamed the Treaty on the Functioning of the European Union (TFEU).

The European Council is governed by art. 15 to 18 TEU and art. 235-236 TFEU.

Treaty of Lisbon regulates the establishment of a bridge to the European Union with the Council of Europe on *human rights* in that it provides the legal basis for EU accession (henceforth having legal personality) to the European Convention on Human Rights and provides in mandatory terms that “*the Union shall accede to the European Convention on Human Rights and Fundamental Freedoms*” [art. 6 par. 2) TEU], with

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<sup>1</sup> Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, Official Journal of the European Union C 83/30.03.2010, Romanian edition, available on the website: [http://www.presidency.ro/static/Versiunea\\_consolidata.pdf](http://www.presidency.ro/static/Versiunea_consolidata.pdf), accessed on 07.05.2015.

<sup>2</sup> European Council, *History*, available on the website: [http://europa.eu/about-eu/institutions-bodies/european-council/index\\_en.htm](http://europa.eu/about-eu/institutions-bodies/european-council/index_en.htm), accessed on 07.05.2015.

the unanimous agreement at the European Council after the approval by European Parliament.<sup>1</sup>

With regard to drafting laws, in the Romanian national law, *the legislative solutions envisaged by the new regulations must take into account the relevant regulations of the EU, the provisions of international treaties Romania is part of, and the case-law of the European Court of Human Rights ensuring compatibility with them* [art. 22 par. (1) and (2) of Law no. 24/2000 on legislative technique rules for drafting laws, republished].<sup>2</sup>

### 3.1. Role of the European Council

The European Council<sup>3</sup> **defines the EU general political directions and sets EU political agenda** by adopting “conclusions”<sup>4</sup> at each meeting, which identifies issues of concern and measures to be taken, but does not exercise legislative functions.

On June 27, 2014 the European Council adopted „*Strategic agenda for the Union in times of change*”<sup>5</sup>, whereby it agreed on five priority areas for EU business orientation over the next five years: 1. *Jobs, growth and competitiveness*; 2. *Empowering and protecting citizens*; 3. *Energy and climate policies*; 4. *Freedom, security and justice*; 5. *The EU as a strong global actor*.

In addition to setting the political priorities of the EU through *strategic agenda* and through its *conclusions*, the European Council has a formal role in the *annual European Semester process in the EU*,

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<sup>1</sup> Dr. Titus Corlatean, *Izvoare conventionale ale Uniunii Europene în domeniul protecției drepturilor fundamentale ale omului*, pp. 246-251, Magazine “Dreptul”, No. 8/2012, Bucharest, Edited by Uniunea Juristilor din Romania, Published in cooperation with Universul Juridic Publishing House, p. 251.

<sup>2</sup> Law no. 24/2000 on legislative technique rules for drafting laws, republished in the Official Gazette of Romania, Part I, no. 260 of April 21, 2010. In the same vein, see: Verginia Vedinaș, works cited, p. 55.

<sup>3</sup> The European Council, *What does the European Council do?*, available on the website: <http://www.consilium.europa.eu/en/european-council/>, accessed on 03.05.2015.

<sup>4</sup> European Council meeting (19 and 20 March 2015) - *Conclusions*, available on the website: <http://data.consilium.europa.eu/doc/document/ST-11-2015-INIT/en/pdf>, accessed on 03.05.2015. We present in excerpt the following *Conclusions - 19 and 20 March 2015*: “II. EUROPEAN SEMESTER / GROWTH AND JOBS 4. The European Council held an exchange of views on the economic situation in Europe and on the implementation of key structural reforms undertaken by Member States. It endorsed the three main pillars of the Annual Growth Survey (investment, structural reforms and growth friendly fiscal consolidation) and invited Member States to reflect these priorities in their forthcoming National Reform Programmes and Stability or Convergence Programmes”.

<sup>5</sup> European Council, *Setting the EU's political agenda, A strategic agenda for the EU*, available on the website: <http://www.consilium.europa.eu/en/european-council/role-setting-eu-political-agenda/>, accessed on 03.05.2015.

representing the annual cycle of economic and fiscal policy coordination at EU level.

At the same time, the European Council is responsible for defining *the strategic guidelines for the area of freedom, security and justice* (Art. 68 TFEU). This responsibility has been implemented for the first time by the most recent guidelines, adopted in June 2014 and covers issues such as border control, migration and asylum policy and police and judicial cooperation.

In conclusion, we note that the European Council is the EU institution with a role in defining the guidelines and general political priorities of the EU, through its political agenda and conclusions.

### 3.2. Organisation and functioning of the European Council<sup>1</sup>

European Council is led by a President, elected by qualified majority for a term of two and a half years, with the possibility of renewal once (currently by Donald Tusk - his term began on December 1, 2014 and will end on May 31, 2017).<sup>2</sup>

European Council members are **heads of state or government** of the 28 EU Member States, European Council President and European Commission President. Also, the High Representative of the Union for Foreign Affairs and Security Policy participates in European Council meetings when discussing matters of foreign affairs.

European Council adopts most decisions by *consensus*, and in some cases mentioned in the EU Treaties, decisions are taken *unanimously* or by a *qualified majority*.

Regarding European Council meetings<sup>3</sup>, it meets at least twice every 6 months. Its meetings, known as “*EU summits*” are held in Brussels and chaired by European Council President.

## 4. Council of the European Union

EU Council<sup>4</sup> bore this name until 01.12.2009, when Lisbon Treaty entered into force, date from which it is simply called *the Council*.<sup>5</sup>

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<sup>1</sup> The European Council, *How does the European Council work?*, available on the website: <http://www.consilium.europa.eu/en/european-council/>, accessed on 03.05.2015.

<sup>2</sup> *EU institutions and other bodies*, available on the website: [http://europa.eu/about-eu/institutions-bodies/index\\_ro.htm](http://europa.eu/about-eu/institutions-bodies/index_ro.htm), accessed on 03.05.2015.

<sup>3</sup> The European Council, *European Council meetings*, available on the website: <http://www.consilium.europa.eu/en/european-council/> accessed on 03.05.2015.

<sup>4</sup> The Council of the European Union, available on the website: <http://www.consilium.europa.eu/en/council-eu/>, accessed on 03.05.2015.

<sup>5</sup> Augustin Fuerea, *Manualul Uniunii Europene*, 5<sup>th</sup> edition revised and enlarged after the Treaty of Lisbon (2007/2009), Universul Juridic, Bucharest, 2011, p. 102.

Informally known as the Council of the European Union, the Council is the EU institution **representing the governments of the Member States** and exerts jointly with the European Parliament legislative and budgetary functions.

The EU Council is governed by art. 16 TEU and art. 237-243 TFEU.

#### 4.1. Role and functions of the Council of the European Union

European Union Council performs the following **functions**:<sup>1</sup>

##### 1. *Negotiates and adopts EU laws - Decision-making process in the Council*<sup>2</sup>

In most cases, the Council decides with the European Parliament through the **ordinary legislative procedure**, also called “*co-decision*”, used for about 85 EU policy areas.

The standard method of voting in the Council is a *qualified majority* (favourable vote by 55% of the Member States), used for about 80% of EU legislation. The Council may vote on a legislative act 8 weeks after the draft law was sent to national parliaments for consideration. National parliaments shall decide whether the draft legislation complies with the *principle of subsidiarity*.<sup>3</sup>

Council meets in public session when debating or voting a proposal for a legislative act and regularly organises public debates on important issues concerning the interests of the EU and its citizens.

##### 2. *Coordinates member states' policies*

The Council is responsible for coordinating Member States' policies in specific areas such as: economic and fiscal policies, education, culture, youth and sport, employment policy.

##### 3. *Develops the EU's common foreign and security policy*

The Council defines and implements foreign and security policy of the EU on the basis of guidelines set by the European Council. The Council ensures the unity, consistency and effectiveness of EU external action, along with the High Representative of the Union for Foreign Affairs and Security Policy.

##### 4. *Concludes international agreements*

The Council grants the Commission a mandate to negotiate on behalf of the EU, the agreements between the EU and non-EU countries and

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<sup>1</sup> The Council of the European Union, *What does the Council of the EU do?*, available on the website: <http://www.consilium.europa.eu/en/council-eu/>, accessed on 03.05.2015.

<sup>2</sup> Council of the EU, *The decision-making process in the Council, The Council as an EU decision-maker*, available on the website: <http://www.consilium.europa.eu/en/council-eu/decision-making/>, accessed on 03.05.2015.

<sup>3</sup> Council of the EU, *Voting system*, available on the website: <http://www.consilium.europa.eu/en/council-eu/voting-system/>, accessed on 05.05.2015.

international organisations. At the end of negotiations the Council decides on signing and concluding agreements, on a proposal from the Commission, after Parliament gave its approval (required in areas subject to *co-decision*) and after agreement has been ratified by all EU Member States.

The procedure for negotiating and adopting international agreements provided for in art. 207 and 218 TFEU.

The Council may also adopt a decision to suspend the application of an international agreement or terminate an agreement.<sup>1</sup>

#### **5. Adopts the EU budget**

The Council adopts the EU budget jointly with the Parliament.

#### **4.2. Organisation and functioning of the Council**

EU Council Presidency<sup>2</sup> is provided by rotation between EU Member States every six months. Council Presidency was provided by Italy in July-December 2014, is provided by Latvia in January-June 2015, and will be provided by Luxembourg in July-December 2015. Romania will provide the Council Presidency during July-December 2019.

The Presidency has two main missions: planning and conduct of meetings of the Council and its preparatory bodies.

The Council is composed of one representative at ministerial level of each Member State, authorized to commit the government of the Member State he represents and to exercise the right to vote.

The Council decides by *qualified majority*, except where the treaties provide otherwise.

EU Council is a single legal entity, but which meets in 10 “**formations**”<sup>3</sup> different depending on the subject discussed: 1. **Agriculture and fisheries**, 2. **Competitiveness**, 3. **Economic and financial affairs**, 4. **Education, youth, culture and sport**, 5. **Employment, social policy, health and consumer affairs**, 6. **Environment**, 7. **Foreign Affairs**, 8. **General Affairs**, 9. **Justice and home affairs**, 10. **Transport, telecommunications and energy**.

The Council is supported by the Committee of Permanent Representatives of the Governments of the Member States to the European

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<sup>1</sup> For example, in 2010, the Council suspended the art. 96 of the Cotonou Agreement with Zimbabwe, which blocked the payment of development aid granted to this country.

<sup>2</sup> Council of the EU, *The presidency of the Council of the EU*, available on the website: <http://www.consilium.europa.eu/en/council-eu/presidency-council-eu/>, accessed on 05.05.2015.

<sup>3</sup> Council of the EU, *Council configurations*, available on the website: <http://www.consilium.europa.eu/en/council-eu/configurations/>, accessed on 05.05.2015.



Union (Coreper) and over 150 workgroups and highly specialized committees, known as “*Council preparatory bodies*”.<sup>1</sup>

## 5. Conclusions

The basic distinction between the three Councils is that the **Council of Europe** is an international organisation and the **European Council** and the **Council of the EU** are institutions of such organisation, i.e. of the European Union, in other words we can say that the difference between the first and the other two councils is that *from whole to part*, or *from gender to species*.

Regarding the premises of three entities, they are also distinct: Council of Europe is headquartered in Strasbourg (France) and the headquarters of European Council and of the EU Council are in Brussels (Belgium).

From a functional perspective, we can say that the Committee of Ministers of the **Council of Europe** - its decision-making body (in which each Member State is represented by Foreign Minister) is the counterpart of the **EU Council** (the place where ministers from all EU countries meet) which exercises the legislative function jointly with the European Parliament. An important and distinctive element in the exercise of legislative function by the EU Council is the role of national Parliaments which are consulted and must decide whether the draft legislation complies with the *principle of subsidiarity*.

Regarding the **European Council** also an EU institution, a status acquired with the entry into force of the Lisbon Treaty, we see that such an institution involved in defining the political action directions of the Union, cannot be found in the Council of Europe, aspect denoting the originality of this construction and the fact that EU integration is an evolutionary ongoing process, according to the *neo-functional approach*.

A constant characteristic of Romania, as a member of the Council of Europe and of the European Union, is that it is represented in all the institutions of the two organisations.

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Permanent Representation of Romania to the Council of Europe:

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## **EVALUATION AND RISKS OF DRUGS' TRAFFICKING**

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### **Abstract**

*The phenomenon related to drugs includes firstly the trafficking activity for drugs which comprises activities such cultivating, distributing, producing and selling drugs anywhere in the world. Drugs' trafficking is a world phenomenon that affects each society turning currently into a business for large criminal organisations, a business affecting human lives first of all, and the fighting off this phenomenon encounters always difficulties in "exterminating" totally such organisations.*

**Key-words:** traffic, drugs, organised crime, consumption, combating

### **1. Conceptual presentation**

Drug trafficking is a trade "activity" performed illegally that is outspread worldwide, involving activities such as cultivating, manufacturing, distributing and selling substances that belong to the category of substances included in the drugs' prohibiting laws. Each state through its bodies, and the international bodies of combating the traffic and consumption of drugs are permanently monitoring and researching the world market of illicit drug trafficking in order to identify all its substrata and to fight off and de-structure the criminal organisations that are involved in such activities that are seriously affecting the society as a whole and the life of the individual, in general.

Drugs' trafficking is closely related to drugs' production because as long as the production of such substances exists, also consumers will exist anywhere in the world, and the road of drugs to the final consumer is actually the drug trafficking that can be achieved under various forms.

The size of the drugs' market generated in time both acceptance and acknowledgement of the importance that drugs generate by means of their effects at all levels of life. Drug trafficking represents for the majority of criminal groups an important incomes' resource which makes that the attention given to such a global phenomenon during the last decade has

become very focused, specialised authorities in this respect being careful to the evolutions in this respect. For instance, at international level, but also at European Union level to the cannabis production were associated also several criminal groups that find their “headquarters” in the South-Eastern part of Asia, thus existing several concerns at global level regarding the diversification of the activities of these groups which can comprise also the production and sale of methamphetamine at the level of the European Union.

In accordance with the yearly report of the European Union – EMCDDA-Europol, several of the criminal groups which in the past dealt mostly with the heroin trafficking, currently expanded their activity and involved themselves in drug trafficking with cocaine and methamphetamine in the entire European Union, and the traffic routes are the same with the ones used for heroin trafficking.

The globalisation phenomenon turned gradually into a factor favouring drug trafficking and consumption entirely, many of the countries turning gradually into points of transit, of warehousing or production. At the level of the European Union several efforts were made in the acerbic fight against drugs, so that all EU Member-States have adopted a European pact that provides that Member-States and institutions of the EU should work together for being able to put a halt to the illicit production and trafficking of drugs.

Considered on categories of drugs, the market is rather “diversified”, the consumers being able to consume whatever drug they wish. From the viewpoint of drug production at world level, in 2013, according to international estimates, the opium production was of approximately 6883 tons, the production from Afghanistan being of approximately 80% from the total opium production at world level.

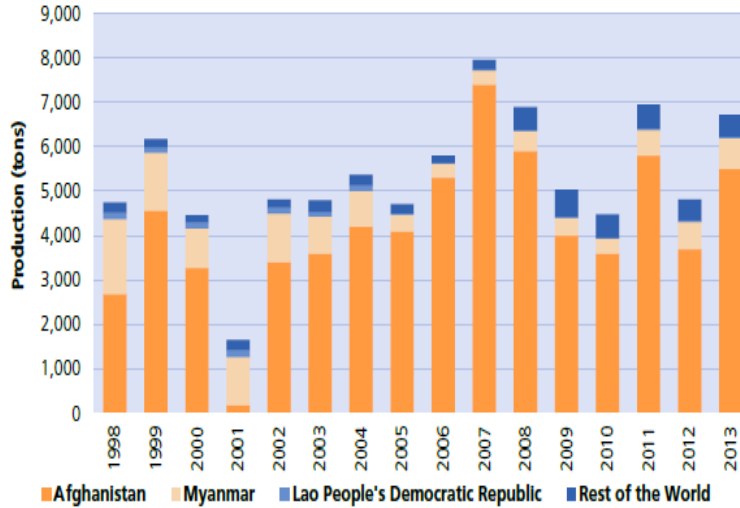
With respect to the production of heroin, as compared with past years, the production increased to up to 600 tons. The illicit cultivation and production of opiates is limited only for some countries or regions, thus, illicit opiates are trafficked on very big distances and by several transition countries, the final purpose being to satisfy the demand at world level.

The supply and demand of opioids at world level is far from being on a descending trend or from remaining at the same level, especially as there are several evidences that highlight the flows of heroin trafficking from Afghanistan to the European continent, the destination markets or countries being extremely diversified in the last period, in particular as in the last period was noticed a trend of increased interaction between illicit markets and legal markets for opioids.

The route on which heroin is trafficked is known as “the Balkan Route”, that is from Afghanistan to Central and Western Europe, then to Turkey, but this route was discovered and gradually several hindrances

appeared in the way of drug traffickers, among which also the fight of the authorities from the targeted countries by applying the law in the field, and also due to the decrease of drug demand in the country of destination.

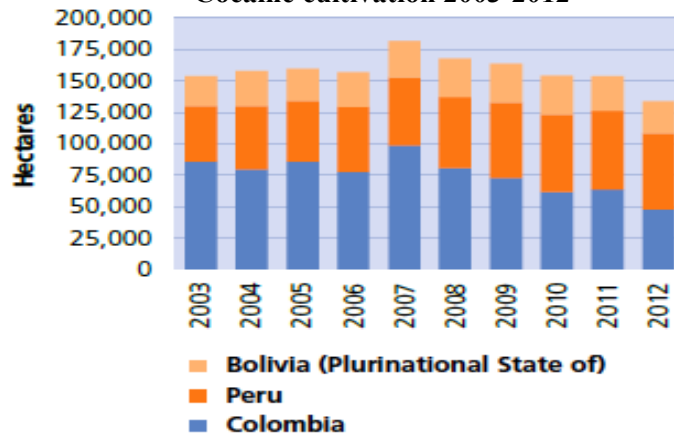
**Global Opium Production 1998-2013**



[Source: World Drug Report, 2014]

With respect to the cultivation of cocaine at global level, it is estimated that it registered a decrease, so that a deficit of demand was also generated at global level for cocaine, while among the years 2003-2006 the surfaces cultivated with cocaine totalled 153.000-157.000 hectares, a total that was identical in the period 2010-2011. In fact, the decline registered with respect to the cultivation surfaces for cocaine are not relevant, in particular if we take into account the fact that the traffickers and producers of drugs improved a lot the manufacturing process of cocaine.

**Cocaine cultivation 2003-2012**



[Source: World Drug Report, 2014]

It can be easily noticed from the presented graph with respect to cocaine cultivation that the main countries where cocaine is mostly cultivated and where are found the most spread out surfaces of cocaine and its cultivation is a “full-job” are Peru, Columbia and Bolivia, and the traffic route for reaching the European continent is the following: South-America, West- and Central Africa, Central and Western Europe, and from here towards the East and Asia the Balkan route is the one used.

Perhaps the widest spread with respect to the cultivation of drugs is the one of cannabis, as it is most easy to be procured and cultivated from all the drugs. The majority of regions from the entire world is faced with the cultivation of cannabis, this being realised either individually at a private farm, where also warehousing is provided for cannabis, or is realised in regions hidden from the eyes of the authorities. The activities for cultivating and producing cannabis are rather difficult to estimate. According to the World Drug Report, the cannabis plant is cultivated in almost all countries of the world, while the production of cannabis raisin is made only in a few countries from North Africa, Middle-East and South-West Asia.

From the viewpoint of the cannabis market, both as plant and as raisin, this is continuously increasing, so that two-thirds of the world countries report that cannabis is the primary substance with respect to drug abuse. At the level of the European Union, cannabis is cultivated mostly on the territory of Spain, Italy, the Czech Republic and Albania, and after that the route followed to reach Romania is: transiting Serbia and Bulgaria, and thereafter to Romania from Hungary or Bulgaria.

A much bigger issue which is felt by the entire mankind is the diversified substances which leads to the emergence of new drugs. The cultivation of plants and their production underwent gradually also other processes by which were obtained thereafter new drugs, drugs that become increasingly more powerful and underwent galloping spread out at global level. For instance, at world level it is rather difficult to quantify which is actually the total production of stimuli of the amphetamine type, as in the world there is an estimated total number of 12.471 laboratories, where in majority methamphetamine is produced. The fight of the authorities in combating organised crime had some success, which is many of these laboratories were discovered and eliminated. For instance, in the United States of America, in the year 2012, from 12.857 laboratories, the number decreased to 11.116 and in Mexico from 259 to 159.

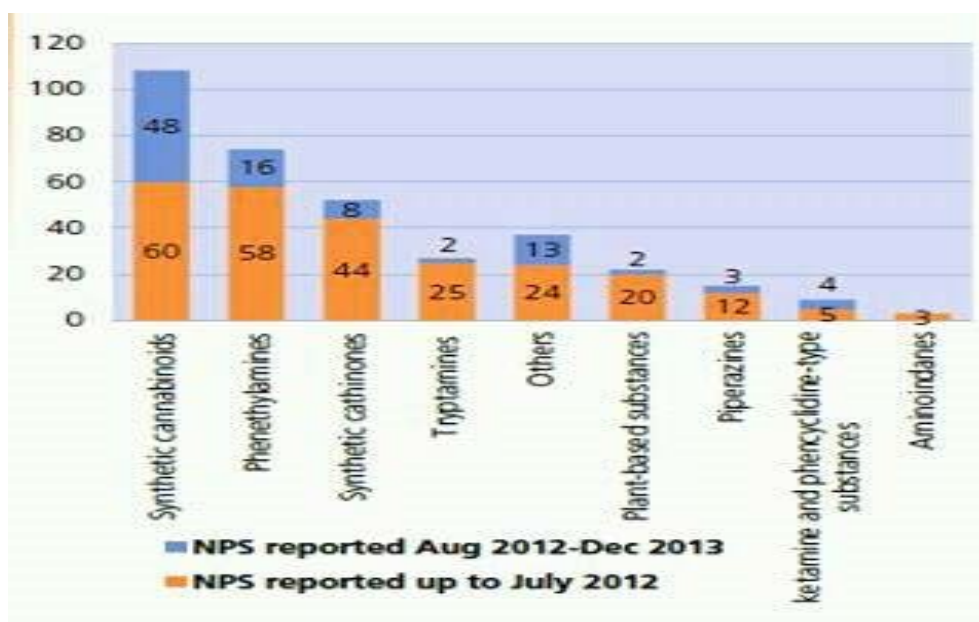
At European level, synthetic drugs (amphetamines, derivates thereof, methamphetamines and ecstasy) continue to come from Western Europe, as they reach Romania either by post, by air or land. In the year 2013, there were attempts to introduce also some chemical substances not subjected to control and that can be easily changed into drug precursors, called



generically pre-precursors, especially by citizens of the countries with tradition in producing synthetic drugs (the Netherlands, Belgium).

Currently, there is an even higher concern according to the data obtained up to date as it seems that at world level there are discussions about the emergence on the drugs' market of new psychoactive substances, 94 countries reporting this situation. The regions reporting this concerning situation are: Europe, North America, Oceania, South-East Asia, South America and some countries from Africa. The use of these new psychoactive substances turned in very short-time a true global phenomenon, which continues to spread and evolve very quickly which makes even more difficult the fight of international and national bodies against drugs. According to the World Drug Report, in 2013 mention was made of a much higher number of psycho-active substances than in the year 2009, that is in 2009 where counted a total number of 34 new psycho-active substances, and in 2013 their number is of 251 such substances.

#### New psycho-active substances at global level (year 2013)



[Source: World Drug Report, 2014]

At national level we can mention that drug trafficking takes place mostly under the form of drug selling, as Romania is regarded more as a transit country for many of the biggest drug traffickers. In the case of heroin trafficking, in Romania is found a certain relative maintenance of the drug trafficking activities, aspects that pertain a lot also to the geographic position enjoyed by Romania, the territory of our country being used by criminal groups for heroin transportation from the production areas from

Afghanistan towards Western Europe and, in particular, to the Netherlands and Great Britain.

On the territory of our country, the most spread and, at the same time, the most captured drug is cannabis, the demand for this drug by the consumers' from Romania increasing each year. This cannabis demand increase is due mostly to the decreasing availability of new psycho-active substances on the drugs' market, but also due to the false belief of many consumers that this drug does not create dependency and is not dangerous (both very false assertions). In 2013, on the Romanian territory, according to the official data of specialised bodies, a high number of cannabis crops was registered both indoor and outdoor, many of the consumers cultivating the drug in their flats, houses or hidden among the agricultural cultures: thus were identified 69 illegal cannabis cultures. For instance, in the county Arad, in 2013, was discovered the first industrial cannabis culture, which had as purpose to feed the markets from Germany, the Czech Republic and Hungary.

With respect to the traffic of cocaine on Romania's territory, it could be regarded as a distinct situation as compared with the other situations of drug trafficking that is, this drug is implemented in Europe from South America being at the same time of relatively high concern for the criminal groups at transnational level, that use diversified routes all the time to avoid getting caught. Romania, in such a context remains an alternative by-pass route for introducing cocaine on the territory of Europe, and a frequently used entry point by these groups is Constanta Shipyard which is regarded also as the "main entry gate" for the quantities of cocaine with final destination in various European countries. For instance, the transport of cocaine can be dissimulated as follows: cocaine enters by the naval routes to Romania among other legal loads, and thereafter exits Romania by land routes together with the transport of cars or busses.

The sale of illegal substances is another specific activity to drug trafficking, and at the level of our country the practiced prices maintain limits close to the values, so that according to the data of the National Anti-Drug Agency the prices practiced in the sale of drugs, in 2013, are the following:

- Cannabis/cannabis raisin – retail price of 13.58-18.1 Euro/gram;
- Marijuana – retail price of 9.05-18.1 Euro/gram;
- Heroin – retail price of 33.94-45.26 Euro/gram;
- Cocaine – retail price of 80-120 Euro/gram;
- Ecstasy – the price of a tablet varies between 9.05 and 18.1 Euro;
- LSD – retail price between 18.1 and 33.94 Euro/doses.

Researches in the field of preventing drug consumption focused on explaining the relationship between drug consumption and the interaction of

various risk factors of individual, family and social nature highlight the fact that the development of some consumption methods is not directly related to the force of these factors. The risk factors are circumstances previous to initiating consumption, abuse or problematic drug consumption.

Risk factors are “those characteristics, variables or circumstances that acting in the life of a person contribute to increasing the probability that the respective person develops a behavioural issue, as compared with any other individual in the general population, selected randomly”, such as: economic and social deprivation, disorganisation in the social environment, the lack of emotional family binds, permissive attitudes and behaviours with respect to drug consumption, educational dysfunctions of the family, entourage, school failure, etc.

### **Conclusions**

As result of studying these data about the situation of drug trafficking on the territory of our country, it can be said that Romania is not a country of drug consumption but rather an important transit point with respect to heroin trafficking, belonging to the Balkan route used by drug traffickers, but at the same time Romania started to get more attention from the criminal organisations especially with respect to the activities of cultivating and trafficking cannabis.

With respect to cocaine trafficking, Romania is very often targeted by drug traffickers from Latin America, due to the gate which is the Constanta Shipyard which makes easier the entry to the European territory, so that they are easier able to distribute cocaine on large scale.

### **Acknowledgements**

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## **ETHICS, MANAGEMENT AND HUMAN RIGHTS**

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### **Abstract**

*The topic of business ethics emerges in the 21st century, if we consider at least two aspects. First, amid the great scandals of corruption and lack of integrity, so we could say it has a reactive background, and secondly, amid the constant development of the legislation that protects and stimulates an ethical approach, but also of the legislation that guarantees the respect for human rights in a financial and economic context. Is the 21st century business world more interested in the sensitive elements of life such as ethics and morality than in profit? Is it the impact of the past 10 years marked in the beginning by profit and then by the unprecedented financial and economic crisis? Whatever the answer to these questions may be, it is certain that ethics and human rights are reflected in the managerial activities and decisions. This conclusion is based on the financial scandals both in Romania and the European countries. Theoretically, financial scandals should not arouse our interest in ethics, morality and respect for individual rights and liberties, but on the contrary. The awareness on the importance of these values should lessen the engagement in unethical managerial activities.*

*The topic discussed here wants to highlight these elements of ethics and individual liberty through a theoretical and practical approach in order to create an argumentation that would motivate managerial involvement in terms of ethics and human rights.*

**Keywords:** *ethics, management, financial, human rights, economic, spiritual, religious, morality.*

### **Business ethics and management – a theoretical and practical approach**

To better understand and to be able to describe and evaluate the authority of ethics, we must ask ourselves where it came from. Also, in order to understand the need for this concept and the significance of the question, we should imagine a society without rules, which would be almost

impossible. Although ethics should not take into account rules or laws, but rather thoughts, it is more obvious to notice and to evaluate the importance of ethics in a negative context. For example, from 1975 to 1984, 62% of a total of 500 companies were involved in one or more illegal incidents; 42% in two or more unlawful activities and 15% in more than five illegal activities. Among those unethical factors we can list bribes, fraud, deceit (including falsifying tax records, double-entry bookkeeping, etc.) and copyright issues.<sup>1</sup>

It is obvious that, along the history, the financial interest within companies has often exceeded the desire for ethics and its reality, but it has also exceeded the ability for an ethical perception of the society. Is the ethics unexplored educational imperative among companies and in society to blame? How could this goal be achieved?

I think that in order to answer these questions we would have to take into account factors such as the importance and origins of ethics, so that we would be able to achieve what would be the best way for understanding and applying ethics in management decisions and for other elements prerequisites or not for life. An interesting answer would be that ethics could be considered of religious origins, if we take into account the explanation that Peter Singer offers to this dilemma, according to which ethics is "a human test necessary in order to align our imperfect nature" and "the divine nature".<sup>2</sup> But this possible alignment cannot be made without a certain awareness and indepth regarding the two dimensions that we mentioned "our imperfect nature" and "the divine nature". Here we are sent more than two antagonistic concepts.

I think to answer these questions would have to take into account factors such as the importance and origin of ethics, to be able to achieve what would be the best way for understanding and applying ethics in management decisions and other prerequisites or not, life. An interesting answer would be that ethics could be considered religious origin, if we take into account the explanation that Peter Singer offers this dilemma, such that ethics is "a human test necessary to align our imperfect nature of the divine nature". But the possible alignment can not be made without awareness and deepening the two dimensions mentioned "our imperfect nature" and "divine nature". Here we are sent more than two antagonistic concepts.

I believe that in order to speak about the fallen human nature we must begin with a theological concept called "sin". Whether we take into account the theological concept described above or not, the idea of

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<sup>1</sup> Etzioni, Amitai. "Shady Corporate Practices", The New York Times, A35. The New York Times Company, 1985, pag. A35.

<sup>2</sup> Singer, Peter, editor, *Tratat de etica*, Editura Polirom, Iasi, 2006, pg. 30.

imperfect nature remains emphasized, meaning it lacks the ethical and moral, as something wrong, reprehensible. If we compare the realistic term of the human nature, devoid of perfection, with the divine nature, then we can talk about an end point where we should arrive.

Through these two concepts, the starting point of the human nature and the end point of the divine nature, we can talk about a process of reforming ethics, a possible process that turns the individual not only on an ideatic level, but also at a factual one.

Certainly the question about the origins of ethics can find many more answers, but this one seems to me to be relevant regarding the human tendency to reach a pre-existing moral standard, so somehow universally valid. One can address several questions about the efficiency of example, but I think at this level of discussion, the theoretical aspect is enough. In the paper I present other arguments in order to make this plea viable.

If we look at another reality on origins we can discover the beginnings of the interest for ethics in the Greek philosophical world, specifically in the teachings of Aristotle. Ever since then there had emerged trends in addressing ethics as a philosophical discipline which named the overall human customs and traditions. It is important to note that ethics had already been moved to the center of philosophical discussions with the emergence of Socrates.<sup>1</sup>

Going to a practical area, can we talk about an uniformity of ethical thinking regardless of the geographic area? It is possible for a multinational to apply the same code of ethics in each national and cultural context?

The national, regional or cultural context does not diminish the importance of ethics, especially in business, but offers a much wider image on the subject, requiring attention for the ethical approach in a scientific light. Such an approach enhances both research and applying ethical principles, on the one hand confirming them, on the other hand developing and aligning the concepts to a universal thought that efficiency should prevail.

On the other hand, awareness on the importance of ethics in the religious concept could broaden the application of ethics among companies and individuals with a religious profile. If this could be possible, then this element should certainly be worth exploring and implementing.

### **Management and human rights**

It is interesting to approach this topic taking into account the interest of the United Nations in this issue in recent years. In 2005 Kofi Annan, who

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<sup>1</sup> <http://www.crestinortodox.ro/religie-filosofie/perioada-antropologica/socrate-intemeietorul-eticii-71705.html>

was then the Secretary-General of the United Nations, met Professor John Ruggie, Harvard University's representative for business and human rights. The discussion focused on defining and redefining the term of social responsibility and making a guide to ethical principles in business, consistent with human rights. Large companies have reacted positively, appreciating the association of these two concepts which they considered to be essential in the business reality.<sup>1</sup> During the meeting, Professor John Ruggie was asked: "What kind of cases from the business world creates a higher concern?"<sup>2</sup> His answer was clever and realistic. He says that no company displays reluctance to human rights. In Professor Ruggie's opinion, most companies respect human rights and many of these cases are rather resolved by the courts empowered rather than through a proactive mentality of the companies in applying and complying with the human rights law as a set of principles rather than being placed in a punitive context.<sup>3</sup>

Approaching human rights through the lens of business ethics constitutes a new, pretty interesting approach in a moderately widespread but steady process. In civilized countries large companies begin to take into account religious sensibilities, options for work or rest on certain days or certain times, depending on the employee's religious options, but they also take into account the element of non-discrimination highlighted in the local or international law. The great managerial and research efforts involved in this approach can be put, on the one hand, on the account of the concerns for the employee's motivation<sup>4</sup> and of the companies' wish for performance and, on the other hand, this effort can be seen as a concern for the enforcement and compliance with the human rights legislation.

Approaching management and managerial ethics through the lens of human rights can prove itself a useful strategy in attracting competent employees, but with different religious beliefs, for example. In this context, I find relevant the ethical code of an international company active in the field of industrial engineering and technology, namely Baran Group. In addition to the classical elements of business ethics such as integrity,

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<sup>1</sup> <http://business-ethics.com/2011/10/30/8127-un-principles-on-business-and-human-rights-interview-with-john-ruggie/>

<sup>2</sup> The interview was conducted by Michael Connor a personality in media, entrepreneur, and journalist in written media, radio and television. He is an editor for [www.business-ethics.com](http://www.business-ethics.com) and he used to be the host of the radio program "Good Company" broadcasted nationwide by Sirius Satellite Radio.

<sup>3</sup> <http://business-ethics.com/2011/10/30/8127-un-principles-on-business-and-human-rights-interview-with-john-ruggie/>

<sup>4</sup> Richard C. Kearney - Editor, Evan M. Berman – Editor, *Public Sector Performance: Management, Motivation, and Measurement*. Contributors. Pag. 101.



respect, social responsibility etc., the company's code of ethics also includes the human rights element.<sup>1</sup>

### **Conclusion**

In conclusion, we can also approach business and managerial ethics through the lens of human rights. It is essential that in the 21st century, a century when there is a concern for ethics in various areas, to also manifest concern, be it considered exacerbated, for the rights of the employees, both in areas like religion or individual freedom and in the legal sector, both as a concern for new law and as well as in enforcing it.

Business ethics also takes shape due to the companies' concern for social responsibility and for elements such as honesty, fairness, morality, and respect for the religious identity of minority communities.

Perhaps the business world could not be convinced to be the promoter of fundamental human values like those listed above, but it will certainly be imperative to align to this international direction, on one hand due to the tendency of a certain homogenization of values, and on the another hand, due to the global financial crisis and due to the legal context increasingly broaden and favouring human rights.

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<sup>1</sup> [http://www.barangroup.com/social\\_responsibility.asp?newsid=83](http://www.barangroup.com/social_responsibility.asp?newsid=83)

This approach is also remarkable because many international companies are sending out a positive message for smaller, national or local companies.



## **DYNAMIC ACTIVITY OF FOREIGN TOURISTS NATIONWIDE**

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### **Abstract:**

*Study of the dynamics of tourism activity aims to identify prospects for growth in the number of overnight stays by foreign tourists in Romania by applying a methodology based on the rigors of the econometric models requirements that ensure the formulation of relevant conclusions on the extent of foreign tourists flow trends. On this basis there can be established a basis of economic sustainability that can lead to a sustained development of the national economy as required by the international community. The study is structured towards an analytical treatment of dynamics, trend and seasonality of the number of overnight stays with a clear objective that is the knowledge and assessment of the predicted levels for future time segments. The analysis identifies the relative sizes in which the tourism phenomenon is explained by the general trend, seasonable and residual variables respectively. The study shows the importance and the dominant role of seasonal behavior in the dynamics of overnight stays of foreign tourists in 2007-2013.*

**Keywords:** analysis of variance; regression equations; dummy variables; foreign tourist dynamics.

**JEL classification:** E24; F43.

### **1. Introduction**

The importance of sustainable tourism development is shown in terms of understanding the concept of sustainable development in the evolution of the knowledge society and the existing connection between tourism and sustainable development [1]. Sustainable tourism springs from sustainable development, expressing the need for a balance between territorial growth, human development, resource conservation, customer demand

harmonization with development of territories [2]. Sustainable development is a normative concept that involves trade-offs between the objectives of social, environmental and economic nature, and is necessary to sustain the integrity of the overall system [3].

Tourism can play a significant role in the development of European regions. The existing connection between tourism and sustainable development that can be evidenced by the presence of the infrastructure created for tourism purposes, which contributes to local development, and jobs created or maintained can help to offset the decline in industrial or rural activities. Today tourism has become an activity of outstanding economic and socio-cultural importance, and in many cases it is an essential factor in the balance of income of countries, thus ensuring a healthy environment for future economic development [4].

Sustainable tourism involves protecting and developing cultural and natural heritage, from art to cuisine and biodiversity conservation, being always a major consumer of natural resources and human space and a generator of change in the environment and the economy, involving a wide range of effects.

## **2. Methodology used**

The study of the evolution and seasonality of the number of overnight stays of foreign tourists in Romania [5] is based on a series of quarterly data recorded over a period of seven years, 2007-2013.

For the application of analytical methods for analysis of the development, trend and seasonality [6] the number of overnight stays registered in Romania established a dynamic series of quarterly levels for a period of seven years - 2007-2013. It is believed that the total number of observations ( $n = 28$ ) provides statistical support required to define the statistical lawfulness of the tourism phenomenon.

For methodological reasons, a necessary prerequisite is to check the significance of indicators presented in Table 1 using analysis of variance.

The analysis is based on the ratio of dispersions and provides the opportunity to express viable appreciation on: significance and role proportion of components that explain the evolution and the trend of the number of overnight stays in the period under review [7].

Econometric modeling of dynamic series of the number of recorded nights spent by foreign tourists in the quarters for 2007-2013 envisages development of a general trend equation adjusted with quarterly seasonality dummy variables. The transaction is subject to certification of sustainability that has the following restrictions: the parameters of the model are statistically significant based on the "Criterion t"; the residual variable is distributed according to the normal distribution based on the "Jarque-Bera

criterion" and is not affected by an autocorrelation phenomenon based on the "Durbin-Watson statistic criterion"; the series under analysis is stationary based on the "White Heteroskedasticity Test" and the statistical test "Augmented Dickey-Fuller" and also presents safety to develop a forecast scenario by considering "Theil's irregularity coefficient" [8].

### 3. Analysis of the number of overnight stays based on dispersion ratio

The analysis based on dispersions ratio is a viable methodological solution to substantiate, in statistical terms, assessments on [9]: the significance and role of each variable proportion explains the structure of real indicators - the general trend; the significance and role proportion of the seasonal variable – and the significance and role proportion of the residual variable (error term).

Analysis of dynamics, seasonality and trend of tourism activity through the number of recorded nights spent by foreign tourists is supported the information given in the table. (See table no. 1)

**Table 1**  
*Overnight stays in the main structures of tourist reception with functions of tourist accommodation (foreign tourists)*

Year	Q1	Q2	Q3	Q4	Total	Quarterly average in each year of the 2007-2013 period $\bar{x}_i$
2007	587126	991414	1305824	700003	3584367	896,091.75
2008	639861	957825	1124625	636933	3359244	839,811.00
2009	488521	734765	868499	575881	2667666	666,916.50
2010	456805	760562	947319	590397	2755083	688,770.75
2011	506249	833337	1058018	665364	3062968	765,742.00
2012	534137	924144	1120072	713151	3291504	822,876.00
2013	567708	940243	1208026	755175	3471152	867,788.00
Total	3780407	6142290	7632383	4636904	22191984	
$\bar{x}_j$ Quarterly average value between 2007-2013	540058.1 43	877470. 0	1090340.42 9	662414.8 5		$\bar{x}_0 = 792,570.9$ Average value calculated for the entire period analyzed

Note:  $i = 1, 2, 3, 4, 5, 6, 7$  ( $n = 7$ ) = years;  $j = 1, 2, 3, 4$  ( $m = 4$ ) = quarters

Statistical formation of the dynamics of the number of overnight stays (trend, seasonality and residuals) and the proportion of each variable in

total variance of each variable are studied by analysis of variance, systematized in table 2, Fisher distribution complies with the law.

**Table 2**  
*Methodological Information Table for the analysis of variance*

Type of variation	Sum of square deviations	Number of degrees of freedom	Estimate dispersion
1. Change in the number of overnight stays explained component – <b>trend</b> , as a result of action of essential factors	$m \cdot \sum_{i=1}^7 (\bar{x}_i - \bar{x}_0)^2 =$ $= 4 \cdot 46807.5 = 187230.0$	$f = n - 1 =$ $= 7 - 1 = 6$	$S_1^2 = \frac{1872300}{6} =$ $= 312050$
2. Change in the number of overnight stays explained component – <b>seasonality</b> , as a result of seasonal factors action	$n \cdot \sum_{j=1}^4 (\bar{x}_j - \bar{x}_0)^2 =$ $= 7 \cdot 176577.8 = 1236044.6$	$f = m - 1 =$ $= 4 - 1 = 3$	$S_2^2 = \frac{1236044.6}{3} =$ $= 412014.9$
3. Change in the number of overnight stays explained component – <b>residual</b> , as a result of random factors action	$\sum_{i=1}^7 \sum_{j=1}^4 (x_{ij} - \bar{x}_i - \bar{x}_j + \bar{x}_0)^2 =$ $= 56995.4$	$f = (n - 1) \cdot (m - 1) =$ $= 6 \cdot 3 = 18$	$S_3^2 = \frac{56995.4}{18} =$ $= 3166.4$
4. Change in the total number of overnight stays (PT.4 = Pt.1 Pt.2 + + pt.3)	$\sum_{i=1}^7 \sum_{j=1}^4 (x_{ij} - \bar{x}_0)^2 =$ $= 1480270.0$	$f = n \cdot m - 1 =$ $= 7 \cdot 4 - 1 = 27$	

**Source:** Personal processing

**Note:** The sum of squared deviations for trend and seasonality respectively may be presented, in terms of mathematical formalization, as follows:

$$\sum_{j=1}^4 \sum_{i=1}^7 (\bar{x}_i - \bar{x}_0)^2 = m \cdot \sum_{i=1}^7 (\bar{x}_i - \bar{x}_0)^2 ; \sum_{i=1}^7 \sum_{j=1}^4 (\bar{x}_j - \bar{x}_0)^2 = n \cdot \sum_{j=1}^4 (\bar{x}_j - \bar{x}_0)^2$$

Checking the null hypothesis on the significance of the trend component:

$$F_{\text{statistic}} = \frac{s_1^2}{s_3^2} = \frac{31205.0}{3166.4} = 9.855 > F_{\text{table}} = F_{q=0,05; f_1=6; f_2=18} = 2,66$$

Checking the null hypothesis significance seasonality component:

$$F_{statistic} = \frac{s_2^2}{s_3^2} = \frac{412014.9}{3166.4} = 130.121 > F_{table} = F_{q=0,05; f_1=3; f_2=18} = 3,16$$

**Note:**  $F_{table}$  is extracted from the table of Fisher distribution function values for a probability 95% (5% significance level) and number of degrees of freedom  $f_1$  and  $f_2$ .

The significance of the indicator system, which refers to the dynamics of the number of overnight stays (foreign tourists) using "**Criterion F**" (Analysis of variance) provides the following information [10]:

- Trend in the number of overnight stays is a real component of the development or it is statistically significant because  $F_{statistic}$  is greater than  $F_{table}$ . *Trend* holds a 12.648% share of the total variation in the number of overnight stays of foreign tourists;
- Based on the same statistical criterion, quarterly seasonality is also existing and statistically confirmed. *Seasonal component* owns 83.501% of the total variance in the number of overnight stays and is the main characteristic of the evolution of the number of overnight stays;
- *The residual component*, as an expression of the action of random or nonessential factors, has a rate of 3.851% of the total variance in the number of overnight stays;

Based on the results obtained by applying "**Criterion F**" (Analysis of variance) and the conclusions drawn, guaranteed with a probability of 95% (significance level equal to 5%) the development of a model identified by a general tendency equation corrected for seasonality variable represented by average coefficients calculated for each quarter seasonality is justified.

As revealed by applying analysis of variance [11], 83.501% of the total variance in the number of overnight stays variable is explained by seasonality and in these conditions the dynamic series of the number of overnight stays will be subject to adjustment methodology which will use an econometric model that simultaneously highlights the general trend and seasonality using quarterly seasonality dummy variables.

The econometric model related to this data system uses successively separate dummy variables for each of the four quarters of each year in the seven years studied, as shown in Table. 3.

**Table 3** System of variables analyzed by the trend and seasonality of the number of foreign tourists by introducing dummy variables for quarterly seasonality

Period	Actual number of overnights (Thousand day-tourists) $x_i$	Dummy Q1 $D_1$	Dummy Q2 $D_2$	Dummy Q3 $D_3$	Dummy Q4 $D_4$	Time variable $t$	$t^2$
2007: 1	587126	1.000000	0.000000	0.000000	0.000000	1.000000	1.000000
2007: 2	991414	0.000000	1.000000	0.000000	0.000000	2.000000	4.000000
2007: 3	1305.824	0.000000	0.000000	1.000000	0.000000	3.000000	9.000000
2007: 4	700003	0.000000	0.000000	0.000000	1.000000	4.000000	16.000000
2008: 1	639861	1.000000	0.000000	0.000000	0.000000	5.000000	25.000000
2008: 2	957825	0.000000	1.000000	0.000000	0.000000	6.000000	36.000000
2008: 3	1124.625	0.000000	0.000000	1.000000	0.000000	7.000000	49.000000
2008: 4	636933	0.000000	0.000000	0.000000	1.000000	8.000000	64.000000
2009: 1	488521	1.000000	0.000000	0.000000	0.000000	9.000000	81.000000
2009: 2	734765	0.000000	1.000000	0.000000	0.000000	10.000000	100.000000
2009: 3	868499	0.000000	0.000000	1.000000	0.000000	11.000000	121.000000
2009: 4	575881	0.000000	0.000000	0.000000	1.000000	12.000000	144.000000
2010: 1	456805	1.000000	0.000000	0.000000	0.000000	13.000000	169.000000
2010: 2	760562	0.000000	1.000000	0.000000	0.000000	14.000000	196.000000
2010: 3	947319	0.000000	0.000000	1.000000	0.000000	15.000000	225.000000
2010: 4	590397	0.000000	0.000000	0.000000	1.000000	16.000000	256.000000
2011: 1	506249	1.000000	0.000000	0.000000	0.000000	17.000000	289.000000
2011: 2	833337	0.000000	1.000000	0.000000	0.000000	18.000000	324.000000
2011: 3	1058.018	0.000000	0.000000	1.000000	0.000000	19.000000	361.000000
2011: 4	665364	0.000000	0.000000	0.000000	1.000000	20.000000	400.000000
2012: 1	534137	1.000000	0.000000	0.000000	0.000000	21.000000	441.000000
2012: 2	924144	0.000000	1.000000	0.000000	0.000000	22.000000	484.000000
2012: 3	1120.072	0.000000	0.000000	1.000000	0.000000	23.000000	529.000000
2012: 4	713151	0.000000	0.000000	0.000000	1.000000	24.000000	576.000000
2013: 1	567708	1.000000	0.000000	0.000000	0.000000	25.000000	625.000000
2013: 2	940243	0.000000	1.000000	0.000000	0.000000	26.000000	676.000000
2013: 3	1208.026	0.000000	0.000000	1.000000	0.000000	27.000000	729.000000
2013: 4	755175	0.000000	0.000000	0.000000	1.000000	28.000000	784.000000
Total	22191.984						

Data source: www.insse.ro

**Defining the econometric model**

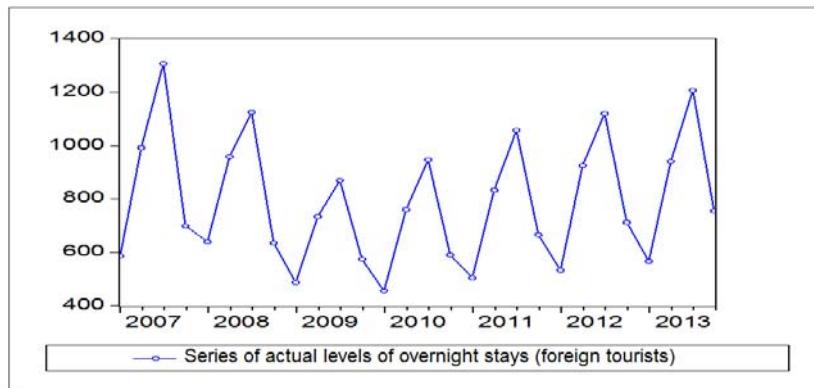
Graphical representation of the number of overnight stays (Fig. no. 1.) illustrates a development that may be deemed to have a general tendency



to change assimilated to a parabolic shape, marked by cyclical fluctuations of quarterly seasonal nature.

Analytical form of the econometric model can be synthetically expressed by an equation that captures both the general trend and quarterly seasonality by introducing the system of dummy variables:

- The general trend parabolic quarterly seasonality with dummy variables:  $y = (a_1D_1 + a_2D_2 + a_3D_3 + a_4D_4) + bt + ct^2$



Source: Personal processing

Fig.no.1. Graphical representation of the number of overnight stays (foreign tourists)

In the case of the general parabolic tendency represented by quarterly seasonality dummy variables, the digital dimension of the parameters of the agreed tendency equation is estimated by the method of least squares, and the resulting values are presented in a synoptic table of econometric representation indicators (see Table no. 4).

The system of equations is used for this purpose:

$$\begin{cases} \sum D_1 x = a_1 \sum D_1^2 + a_2 \sum D_1 D_2 + a_3 \sum D_1 D_3 + a_4 \sum D_1 D_4 + b \sum D_1 t + c \sum D_1 t^2 \\ \sum D_2 x = a_1 \sum D_1 D_2 + a_2 \sum D_2^2 + a_3 \sum D_2 D_3 + a_4 \sum D_2 D_4 + b \sum D_2 t + c \sum D_2 t^2 \\ \sum D_3 x = a_1 \sum D_1 D_3 + a_2 \sum D_2 D_3 + a_3 \sum D_3^2 + a_4 \sum D_3 D_4 + b \sum D_3 t + c \sum D_3 t^2 \\ \sum D_4 x = a_1 \sum D_1 D_4 + a_2 \sum D_2 D_4 + a_3 \sum D_3 D_4 + a_4 \sum D_4^2 + b \sum D_4 t + c \sum D_4 t^2 \\ \sum t x = a_1 \sum t D_1 + a_2 \sum t D_2 + a_3 \sum t D_3 + a_4 \sum t D_4 + b \sum t^2 + c \sum t^3 \\ \sum t^2 x = a_1 \sum t^2 D_1 + a_2 \sum t^2 D_2 + a_3 \sum t^2 D_3 + a_4 \sum t^2 D_4 + b \sum t^3 + c \sum t^4 \end{cases}$$

Thus, the analytical form of the statistical lawfulness of the development of the number of recorded nights spent by foreign tourists by quarters, between 2007-2013, the parabolic general trend variant with quarterly seasonality dummy variables is:

$$y = (725.8252014 D_1 + 1065.963162 D_2 + 1279.011767 D_3 + 848.7164447 D_4) - 37.1231223 t + 1.273963654 t^2$$

**Table 4.** Synoptic panel representing econometric indicators  
(Model series econometric statistical representation of the number of overnight stays by using dummy variables on a quarterly seasonality parabolic general trend)

Dependent Variable: Number of overnight stays				
Method: Least Squares				
Sample: 2007: 1-2013: 4				
Included Observations: 28				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
$D_1$ Q1 „a1”	725.8252	43.17258	16.81218	0.0000
$D_2$ Q2 „a2”	1065.963	44.16463	24.13613	0.0000
$D_3$ Q3 „a3”	1279.012	44.90808	28.48066	0.0000
$D_4$ Q4 „a4”	848.7164	45.41513	18.68797	0.0000
„b”	-37.12312	6.206239	-5.981581	0.0000
„c”	1.273964	0.207568	6.137581	0.0000
R-squared	0.939184	Mean dependent var		792.5709
Adjusted R-squared	0.925363	S.D. var dependent		234.1470
S.E. of regression	63.96858	Akaike info criterion		11.34207
Sum squared resid	90023.54	Schwarz criterion		11.62754
Log likelihood	-152.7890	Durbin-Watson stat		1.214825

Source: Personal processing

The synoptic panel of econometric representation indicators exposes the estimate average error of the parabolic trend equation corrected by applying quarterly seasonality dummy variables, in absolute, which is calculated as follows:

$$\hat{\sigma}_{x;y} = \sqrt{\frac{\sum (x_i - y_i)^2}{n - k}} = \sqrt{\frac{90023.54}{28 - 6}} = \sqrt{4091.97909} = \pm 63.96858$$

thousand days - tourists

in which "n" is the number of observations = 28, and the constant "k" is the number of parameters in the parabolic trend equation corrected by applying quarterly seasonality dummy variables = 6.

To assess the viability of the econometric model based on the estimated average error of the trend equation corrected by applying of dummy variables, the mean estimate error *in relative expression* will be calculated as follows:

$$\hat{V}_{x \cdot y} = \frac{\hat{\sigma}_{x; y}}{\bar{x}} \cdot 100 = \frac{63.96858}{792.5709} \cdot 100 = 8.07\%$$

This indicator expresses therefore the "power" of the econometric model, when used in extrapolating or forecasting calculations. In principle, it is considered an estimate of the average relative error of a very good size when positioning within a maximum of 10%.

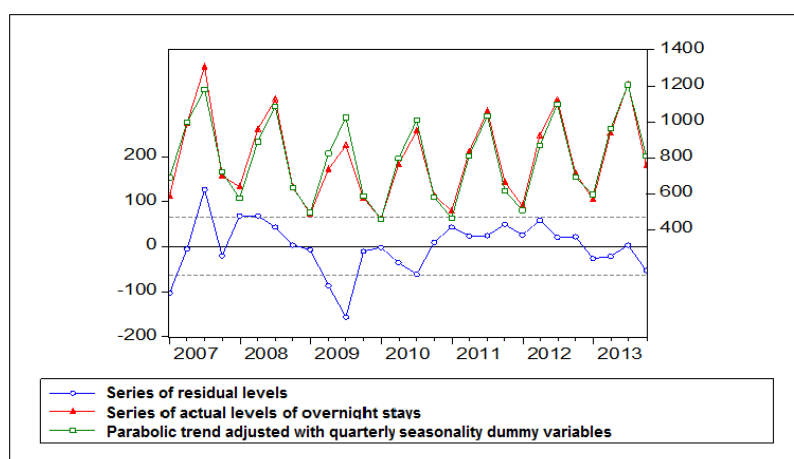
A similar significance indicator is the "coefficient of irregularity / inequality of Theil" which sustain the viability of the model because it has a value ( $Th = 3.4395\%$  - see Fig. no. 4) not exceeding the 5% threshold considered sufficiently restrictive to justify the use of the calculation model estimations of the number of overnight stays related segments next time.

**Table 5.** Residual term interval, series of actual levels – foreign tourists and levels estimated the number of overnight stays (thousand day-tourists) - General parabolic trend with quarterly seasonality dummy variables

Quarter	Actual number of overnight stays (Thousand day-tourists) $x_i$	Parabolic trend with dummy variables seasonally adjusted $y_i$	Residual levels	Residual interval $\hat{\sigma}_{x; y} = \pm 63,96858$ $-\hat{\sigma}_{x; y} \quad 0$ $+\hat{\sigma}_{x; y}$
2007: 1	587126	689976	-102 850	* .
2007: 2	991414	996813	-5.39877	. * .
2007: 3	1305.82	1179.11	126716	.   *
2007: 4	700003	720607	-20.6044	. * .
2008: 1	639861	572059	67.8023	.   *
2008: 2	957825	889087	68.7379	.   *
2008: 3	1124.62	1081.57	43.0509	.   * .
2008: 4	636933	633265	3.66786	. * .
2009: 1	488521	494908	-6.38716	. * .
2009: 2	734765	822128	-87.3633	* .
2009: 3	868499	1024.81	-156 308	* .
2009: 4	575881	586690	-10.8087	. * .
2010: 1	456805	458524	-1.71947	. * .
2010: 2	760562	795936	-35.3743	. * .

2010: 3	947319	1008.81	-61.4878	. * .
2010: 4	590397	580881	9.51582	.   * .
2011: 1	506249	462908	43.3414	.   * .
2011: 2	833337	810511	22.8258	.   * .
2011: 3	1058.02	1033.57	24.4447	.   * .
2011: 4	665364	615839	49.5245	.   * .
2012: 1	534137	508058	26.0794	.   * .
2012 2	924144	865853	58.2911	.   * .
2012: 3	1120.07	1099.11	20.9653	.   * .
2012 4	713151	691565	21.5864	.   * .
2013: 1	567708	593974	-26.2664	. * .
2013: 2	940243	961961	-21.7184	. * .
2013: 3	1208.03	1205.41	2.61903	. * .
2013: 4	755175	808057	-52.8815	. * .

Source: Personal processing



Source: Personal processing

Fig. no. 2. Graphical representation of the number of foreign tourists overnight stays (Actual data and estimated data based on parabolic model with dummy variables for quarterly seasonality residual term values)

Useful information points to the graphical representation in Fig. 2. where the actual levels chronogram of the number of overnight stays and that of the estimated levels on the basis of parabolic model with quarterly seasonality dummy variables have overlapping forms about which induce viability of the econometric model assessment. The graph is displayed waveforms and values of the term of error (residual) waste which reproduce beach Table 5. Residues are disposed compared with the limits marked by

an estimate of the average error equation parabolic trend corrected by applying quarterly seasonality dummy variables,

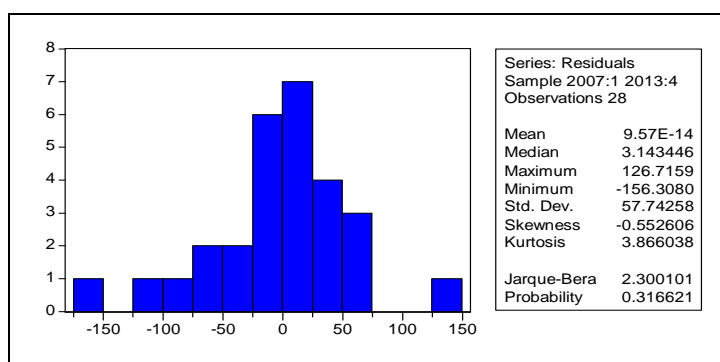
$$\hat{\sigma}_{x;y} = \pm 63.96858 \text{ thousand days - tourists}$$

The analysis highlights six points marking the residuals (see table no. 5) that emerge out of bounds represented by a mean estimate of error, but not positioned outside the limits defined by error or maximum permissible limit set under the law Student distribution by considering the critical value (probability factor)  $\pm t = \pm 2,074$  relating to a significance threshold of 5% and 22 bilaterally distributed degrees of freedom. The error limit is therefore defined as:

$$\pm t_{q=0.05; f=n-k=28-6=22} \cdot \hat{\sigma}_{x;y} = \pm 2,074 \cdot 63.96858 .$$

Graphical representation, in fig. no. 3, of the histogram exposed residues and where next chart presents the statistical indicators that describe the series of the term residual values: mean, median, maximum and minimum value, standard deviation estimate coefficients of asymmetry statistics (Skewness) and vaulting / flattening (kurtosis) and Jarque-Bera statistic coefficient which is associated probability of normal form attesting the compliance of the distribution of residues of normal distribution law.

"Jarque-Bera criterion" provides information that residuals series of the parabolic model with quarterly seasonality dummy variables are not distributed normally because the statistical probability Jarque-Bera associated coefficient (JB = 2.300101) is 0.316621, based on distribution law  $\chi^2$  with two degrees of freedom.

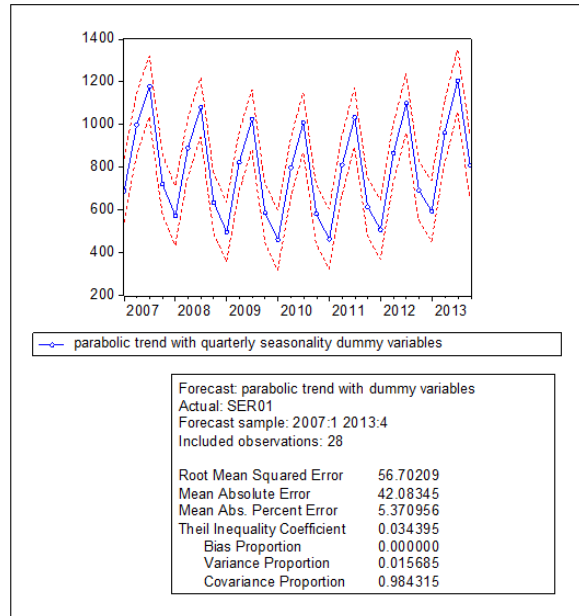


**Source:** Personal processing

Fig. no. 3. *Statistical description and test for normality of the distribution of the residual variable*  
(Parabolic model with dummy variables for quarterly seasonality)

The econometric model developed to formalize the trend fined quarterly seasonality dummy coefficients shown in FIG. no. 4 graphics

illustrating its viability by the arrangement of attaching points overnight stays of foreign tourists. It also presents a statistical confirmation for the digital dimension size of Theil's coefficient of inequality / irregularity.



Source: Personal processing

Fig. no. 4. Graphical representation of estimated levels of the number of overnight stays and of the limits that fall within the terms of  $\pm 2.074$  estimates of the mean error of the foreign tourists trend equation (under the Student distribution law with bilateral arrangement significance) for a significance threshold of 5% and 22 degrees of freedom

$$(\pm t_{q=0.05; f=n-k=28-6=22} \cdot \hat{\sigma}_{x;y} = \pm 2.074 \cdot 63.96858)$$

To test the state of heteroscedasticity / homoscedasticity test of residuals the White Test was used. Results entered in the *Synoptic panel of "White Heteroskedasticity Test"* (See Table 6) were obtained using the **Eviews** software and certifies that the residual variable is heteroscedastic (rejecting hypothesis of heteroscedasticity) and therefore the residual variable is homoscedastic. In these conditions the residual variable dispersion is constant. The conclusion made is validated both under "**Criterion F**" as well as "**Criterion  $\chi^2$** ", significance thresholds of 37.9465% and 32.9978% justify the rejection of the hypothesis of heteroscedasticity as exceeding the maximum permissible limit of 5%.

**Table 6.** Synoptic table of "White Heteroskedasticity Test"  
(Parabolic model with dummy variables for quarterly seasonality)

White Heteroskedasticity Test:				
F-statistic	1.181095	Probability (significance)	0.379465	
Obs * R-squared	14.64588	Probability (significance)	0.329978	
Dependent Variable: RESID ^ 2				
Method: Least Squares				
Sample: 2007: 1- 2013: 4				
Included Observations: 28				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1191.376	12050.72	0.098863	.9226
$D_1$	10728.56	11029.28	0.972735	.3472
$D_1 * t$	-2333.263	3143.340	-0.742288	.4702
$D_1 * t^2$	218.5065	438.5176	0.498284	.6260
$D_2$	1254.560	10888.02	0.115224	.9099
$D_2 * t$	-557.8679	3407.479	-0.163719	.8723
$D_2 * t^2$	160.0509	445.1740	0.359524	.7246
$D_3$	15701.84	11130.90	1.410653	.1802
$D_3 * t$	-1426.741	3578.629	-0.398684	.6961
$D_3 * t^2$	169.5426	447.5087	0.378859	.7105
$D_4 * t$	-931.7651	3652.896	-0.255076	.8024
$D_4 * t^2$	177.2343	445.5897	0.397752	.6968
$t * t^2$	-10.72191	22.58022	-0.474836	.6422
$t-4$	0.203295	0.386253	0.526327	.6069
R-squared	0.523067	Mean dependent var	3215.126	
Adjusted R-squared	0.080201	S.D. var dependent	5542.889	
S.E. of regression	5315.972	Akaike info criterion	20.30167	
Sum squared resid	3.96 + 08	Schwarz criterion	20.96777	
Log likelihood	-270.2234	F-statistic	1.181095	
Durbin-Watson stat	1.869933	Prob (F-statistic)	0.379465	

### 3. Interpretation of representation indicators and econometric conclusions on the model viability assessment

Calculations allow us to appreciate that the model built on a parabolic general trend equation corrected with quarterly seasonality dummy variables is statistically convincing.

Therefore the model considered as reasonable analytical expression of the evolution in the number of overnight stays in the period 2007-2013 is:

$$y = (725.8252014 D_1 + 1065.963162 D_2 + 1279.011767 D_3 + 848.7164447 D_4) - 37.1231223 t + 1.273963654 t^2$$

In support of that assessment there are the following results:

1.- Based on "**Criterion  $t$** ", the parabolic shape general trend equation parameters seasonally adjusted with quarterly dummy variables were significantly different from zero values. Checking the null hypothesis of each parameter is assessed by significance thresholds lower than 5% and is therefore invalidated.

Thus, we conclude that the model was correctly specified and the trend equation parameters show good efficiency when used for the calculation of forecasts. However there is a certain reserve on the correctness of that conclusion since the error distribution is not confirmed statistically of formal similarity with normal distribution, the Jarque-Bera statistical criterion (see fig. no. 6).

2.- In the context of the analysis of the dynamic of the number of overnight stays, the "Durbin-Watson statistic coefficient " is irrelevant because the econometric model has no distinct parameter (coefficient) marking the ordinate at origin.

3.- The relative expression standard error of the estimate equation parabolic trend adjusted with quarterly seasonality dummy variables in relation to the average number of overnight stays is 8.61%, a convenient size, positioned below the 10% limit required to consider the model viable.

4.- "Theil's irregularity (inequality) coefficient" reconfirms by its value,  $Th = 3.4667\%$ , the conclusion offered in the form of relative standard error of the estimate equation parabolic trend with dummy variables seasonally adjusted quarterly econometric model is viable, properly formalize evolution and trend of the number of overnight stays.

5.- The White test confirms the stationary of the dynamic series and thus the viability of the model is sustained, the residual variable is homoscedastic, which will ensure efficient estimate calculation of the number of overnights levels which will be recorded in future time segments.

6. – The "Augmented Dickey-Fuller" statistical test also indicates that the error associated with rejecting the hypothesis that the overnights series has a root unit, is 0.01%, lower than the standard threshold of 5%. In these circumstances it supports the hypothesis that the series is stationary.

7.- The statistical test that propagates a particular vulnerability to the parabolic correction model with dummy variables is the test for normality of distribution of the residual variable, "Jarque-Bera criterion". This test provides information that the residuals series is not normally distributed which alters the viability of the model [12]

#### **4. Conclusions**

The main reason for creating a comprehensive methodology which focuses on improving prospects for perpetuating sustainable tourism in developing countries stems from the growing importance of tourism activity



in these countries. Tourism is one of the most important socio-economic sectors in the world that has been continuously expanding at an average yearly rate of 4-5% in the second half of the 20th century. The evolutionary process of the tourism market must be constantly supervised and measured using appropriate indicators, to be in line with environmental trends and changes caused by the preferences and requirements of potential tourists, who have a considerable effect on the implementation and development of the eco - sustainable tourism process.

Analysis conducted allows us to state that the flow of foreign tourists is positioned on an overall upward trend at the end of 2013 with growth prospects in the coming years. The flow of tourists shows the ability of the economy to ensure competition with neighboring tourist areas.

The study undertaken gives reliable information for decision-makers within the meaning of the mobilization effort for the development of material and human factor competitiveness.

Regardless of models used, the need to estimate and forecast touristic activity is and will continue to be a vital asset in implementing strategic decisions for the existence of sustainable tourism development.

#### **ACKNOWLEDGMENT**

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## **THE RELEVANCE OF THE "EXPENDITURE BUDGET – COSTS BUDGET" BINOMIAL FOR THE MANAGEMENT OF NATIONAL COMPANIES. CASE STUDY – THE ROMANIAN TELEVISION SOCIETY**

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### **Abstract:**

*The short-term forecasting form is usually called budget. Budget represents the typical accounting tool used by companies to plan and control the activities undertaken in order to ensure clients' satisfaction and market success. This paper analyzes the situation of the Romanian Television Corporation, a company that has been confronting major financial problems for the last ten years, and which is subsidized by the state. Our intention was to demonstrate that there are solutions that contribute to improving the financial performance of this company, one of them being that of the transition from the expenditure budgets to the budgets of costs.*

**Key words:** performance, budget, expenditure budget, budget of costs.

**JEL classification:** M41

### **1.INTRODUCTION**

Budgeting represents the starting point of budgetary control. It is useful when it is an integrant part of the strategic analysis of a company. The strategy affects, in its turn, both the long-term planning and the short-term one. This is why **budgeting** is extremely important and necessary.

Budgets provide the managers with the feed-back on the possible effects of their strategies and plans. And sometimes, this feed-back reports the managers that they have to review their plans and even their strategies, if possible. If **planning**, on the one hand, involves setting aut goals and determining some strategies, **budgeting**, on the other hand, establishes the

implementation of the strategy, by assigning the resources of the economic entity. These relationships are highlighted in Figure 1. Based on some studies carried out and on the information gathered, we can appreciate the importance of budgeting due to the fact that the usage of budgets is widespread all over the world; the differences arise in relation to other dimensions of the budgetary activity. Figure 2 shows the percentages of the companies which use budgeting in several states, as well as their importance for the departmental managers. If company managers at all levels do understand and support the budget and all controlling aspects, then they can take advantage of budgeting.

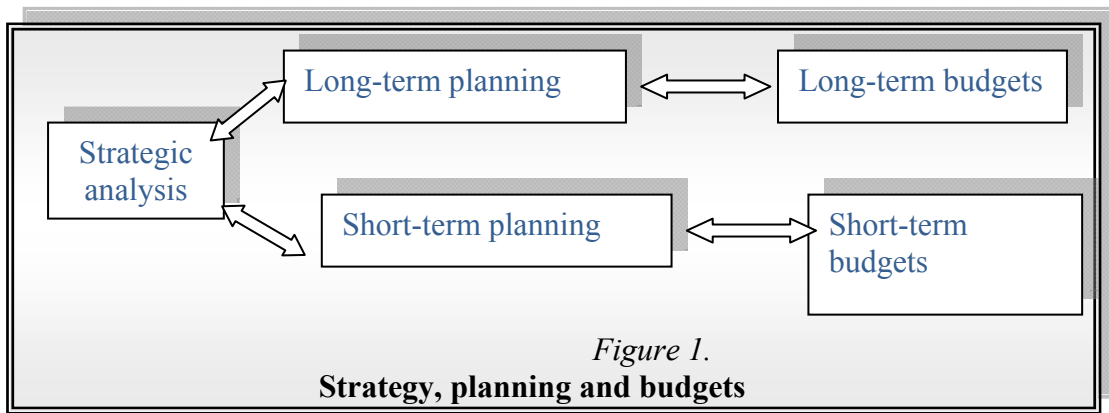


Figure 1.  
Strategy, planning and budgets

Source: C. T. Horngren, S.M. Datar, G. Foster, *Costs accounting, a managerial approach*

Ref. No.	Name	USA	Japan	Australia	The Netherlands	Great Britain
1.	Percentage of companies that draw up a complete general budget	91%	93%	100%	100%	100%
2.	Percentage of companies where departmental managers participate in the debates of the Budget Commission	78%	67%	-	82%	-

3.	Classification of budgetary objectives according to their importance to the departmental managers ( <i>1 being the most important</i> )	1	4	-	-	-
	<b>Return on investments</b>	2	2			
	<b>Profit from operations</b>	3	1			
	<b>Sales revenues</b>	4	3			
	<b>Production costs</b>					
...						

Figure 2. **Budgetary practices in the world**

**Source:** C. T. Horngren, S. M. Datar, G. Foster, Costs accounting, a managerial approach

The changing conditions of the economic environment ask for a modification of plans, therefore budgets should not be rigidly managed by managers. To benefit from all its valences of lever of the economic-financial management, the company's budget has to develop a network of budgets, to descend to the level of each center of responsibility in order to determine the activity areas which negatively influence its results. A manager can unconditionally support a budget, but there might occur a situation when conducting some unplanned repairs or executing an unforeseen advertising program would better serve the company's interests.

Budgets are a fundamental component of most managerial control systems. **Budgeting** is very important to the success of a company since, on the one hand, it determines the managers to analyze the current activity and reflect upon future activities by planning objectives and, on the other hand, it makes possible the performance analysis by comparing results to forecasts. Hence, the undeniable importance of budgeting, through which the overall performance of the company is ensured.

A budget, when intelligently managed: requires strategic planning and implementation of plans; provides a reference framework for performance evaluation; motivates both the managers and the employees of the company; promotes the coordination and communication between the company's divisions.

The dynamics of today's economy requires an improvement in the budgetary process within companies; they need, in order to survive and be prosperous, a complex system of performance and costs management. This can only be achieved by developing advanced forms of budgets.

## 2. CASE STUDY: The Romanian Television Society

The Romanian Television (RTV) is a national society which, in the recent years, has been facing serious financial problems, spendings far exceeding the revenues achieved by it. For this reason, the society benefits from subsidies from the Romanian State.

From the research developed at SRTv, in order to develop this study, it was found that *its management is interested and involved in drawing up, monitoring and controlling the Revenue and Expenditure Budget*, based on the data provided by the general accounting department of the company. Instead, *there is no interest in developing, monitoring and controlling some Costs Budgets*, which would enhance the information of the management accounting and would provide extra useful information to managers. And this, even under the conditions when, within the accounting department of the SRTv, a structuring of expenses into direct, indirect and general expenses takes place. We believe that this is one of the **limits** of the current system of organizing the management accounting in the Romanian Television Society.

### 2.1. General Budget formulation and execution of the SRTv.

**The General Budget** of the SRTv, according to legal regulations in force, is made up of the **Budget of revenue and expenditure, of the Treasury Budget** (cash-flow) and **the situation of the main economic-financial indicators**. The elaboration of the **revenue and expenditure budget** of the SRTv is the procedure whereby they plan the income (resources) meant to achieve the objectives established over a certain period of time (one year) while they plan the level of expenses allowed by resources to meet with the respective objectives.

According to its forecasting function, **the revenue budgeting** represents the estimated level of resources for the budgeted period, respectively for a calendar year. To this effect, within the SRTv, the project of the revenue budget is achieved taking into account all the factors that could determine the size/amount of the budgetary sources, namely:

- The evolution of the income from the TV fee and the TV fee amount charged under the GD 978/2003;
- The assessment of the amounts established by advertising contracts;
- The evolution of income from other activities;
- The level of revenues allocated from the State budget;

- The forecasted level of inflation;
- The estimated exchange rate;
- The forecast of the national economy development in the global economic context, etc.

**The Revenue Budget** is drawn up by the Economic Department via the *Bugets-Economic Analyses* Service. During the process of designing the revenue budget on income categories, the following are considered:

- The situation on the evolution of revenues from the TV fee provided by the Service *Public Television Service Fee*;
- The situation regarding the level of revenues coming from advertising and made by the *Marketing and Product Communication* Department;
- the draft of income budget from budgetary allocations;
- other categories of revenues by analysing the historical evolution of these categories, as well as by adjusting their forecasted level depending on the factors that could influence the evolution of these revenues during the budgeted period.

In order to keep a balance between resources and expenses, the level of expenditure to be budgeted for the given period must be within the forecasted resources.

In the design of the **expenditure budget**, each organizational structure must achieve their own objectives established in accordance with the overall strategy of the SRTV. Also, in the process of drawing up the expenditure budget, they must take into account the factors which could influence the level of estimated expenses and that is:

- programs strategy (the activity of production and broadcasting) established by the head of the SRTV;
- hierarchy of objectives based on the overall strategy of TVR;
- level of resources allocated via the project of expenditure budget of the budgeted period;
- expenses already contracted in previous periods;
- expenses incurred from State budget allocations;
- forecasted level of inflation;
- estimated exchange rate;
- the forecast of the national economy evolution in the global economic context, etc.

All departments and directorates involved have to participate in the process of drawing up the project of the expenditure budget for production and broadcasting so that the expenses incurred by contracting the programs through production conventions must be harmonized with the costs imposed by each and every program and belong to the other structures participating in the making of the respective production (the expenses of the Programs

Department harmonize with those of the Publishing Directorate, of the Artistic and Production Directorate and with those of Technical Department).

*The projects of expenditure budgets*, drawn up by each structure, are submitted to the *Economic Budgets-Analyses Service* which prepares *the overall project of expenditure budget of TVR*, by observing the balance between revenues and costs. The economists responsible for the budgetary activity within each structure must take into account, during the process of expenditure budget elaboration, the principles that constitute the basis of costs level.

The *Economic Budget-Analyses Service* draw up (based on the forecasted overall income and expenditure budget) **the treasury budget**, of the available flow necessary to realize the income and costs budgets. **The treasury budget** is drawn up by using the direct method, on types of activities: operating activity, investment activity and financial activity. Simultaneously, it prepares **an estimated situation of the main economic-financial indicators** on the basis of the project of revenues and expenditure budget.

*The project of the overall budget of income and expenses* is submitted for endorsement to the CD and then for approval to the head of the SRTV, while in CA **it becomes mandatory after approval**. The *Economic Budget-Analyses Service* notifies each structure the level of expenditure budget approved by the SRTV management.

**The implementation of the expenditure budget** shall be made by the *economic Budget-Analyses Service*, the possible differences from the projected level are established, the causes of deviations from the projected level are highlighted and analyzed. **The implementation of the expenditure budget** shall be made by each structure in particular, through the economic staff responsible for this activity, after the data from each structure's own records have been confronted with the data from the financial accounting and the possible differences have been reconciled; considering that the reconciliation of differences implies other structures, too, these shall be notified by the parties involved in the process of expenditure budget implementation (The *Economic Budget-Analyses Service* and the economic personnel of the respective structure). The operative records drawn up by the economic personnel of each structure responsible for running the expenditure budget must observe the principles laid down and fit into the format form for the progress of the foreseen expenditure budget.



## 2.2. Income and Expenditure Budget of the Romanian Television Company

The overall income and expenditure budget of the SRTv includes the Income and expenditure budget from own sources and the Income and expenditure budget from allocations from the State budget (operations covered by the the procedure on budgetary commitments).

The income budget includes total revenues of the SRTv and consists of:

- **own income** of the SRTv which come from:
  - a) sums raised from achieving the object of activity;
  - b) fee for the public broadcasting service;
  - c) delay penalties for failure to pay due tax;
  - d) amounts earned from advertising broadcasting;
  - e) amounts collected from fines and civil damages;
  - f) donations and sponsorships;
  - g) other income earned by the law.
- **Income from allocations from the State budget** approved by the annual budgetary law, allocated to the SRTv to cover some capital expenses (expenditure on development, on equipment purchase), consumables and spare parts necessary for specific activities, to pay the contributions due to international government organizations, as well as, wholly, the necessary funds for the use of broadcasting stations, of radio-relays and video and sound circuits owed to the economic operators in the communications system.

The expenditure budget shall be drawn up by each organizational structure in part starting from the activity specifics and considering: the program schedule approved by the SRTv management, the contracts signed/to be signed for the budgeted period, the necessary facilities and other expenses involved in the proper conduct of the business.

The implementation of the general budget on revenues and expenses of the SRTv comprises the following phases:

- planning the income and expenditure budget;
- implementing the income and expenditure budget;
- tracking, controlling and reporting the income and expenditure

budget.

## 2.3. New dimensions of the antecalculation costs within the SRTv. or the binomial EXPENSES BUDGET – COSTS BUDGET

Studying *THE PROCEDURE regarding THE ORGANIZATION AND LEADERSHIP OF THE MANAGEMENT ACCOUNTING within the SRTV*, approved and implemented in 2010, I came across, on page 5 (paragraph 5.2.2 of the above mentioned procedure) the formulation according to which,

when drawing up the **Expenditure Budget** of the SRTv, "expenses group into: **direct, indirect and general expenses** and within each group by categories of expenses (materials and inventory items, energy, gas, water, maintenance and repair, rent, insurance, travel, postage, telephone services, protocol, publicity, copyrights and related rights, civil contracts, awards, dues, fees and taxes, labour protection, licences, other services, staff reimbursements – salaries and meal vouchers, banking services, write-off)". Analyzing the structure and content of a **Revenue and Expenditure Budget** drawn up by the SRTv, it was found that the budget groups the expenses in accordance with the requirements of general accounting (financial) and not according to the peculiarities of the management accounting, as previously mentioned in the above procedure. It was also found that at the SRTv **no budgets of costs are drawn up**, there being a confusion between the concept of **expenses** and the term **costs**.

We believe that, based on the above mentioned expenses grouping, within the SRTv, at least three types of **Budgets of Costs** can be drawn up: **the Budget of Direct Costs, the Budget of Indirect Costs and the Budget of General Costs**. In preparing these budgets, we have analyzed the current situation and we consider that these budgets can be drawn up by starting with "THE DRAFT BUDGET OF EXPENDITURE FOR THE YEAR..." which the SRTv draws up annually for the next year, with cost breakdown by each and every month.

Synthesized, the structure of a *Draft Budget of Expenditure* is illustrated below.

**DRAFT BUDGET OF EXPENDITURE FOR THE YEAR ...**

		<b>Budget Position</b>	<b>Jan.</b>	<b>.....</b>	<b>Dec.</b>	<b>Total</b>
<b>Pos.1st</b>	<b>A.</b>	<b>Consumable items</b>	...	...	...	...
<b>Pos.2nd</b>	<b>B.</b>	<b>Inventory items</b>	...	...	...	...
<b>Pos.3rd</b>	<b>C.</b>	<b>Fees</b>	...	...	...	...
<b>Pos.4th</b>	<b>D.</b>	<b>Trips</b>	...	...	...	...
<b>Pos.5th</b>	<b>E.</b>	<b>Insurance</b>	...	...	...	...
<b>Pos.6th</b>	<b>F.</b>	<b>Utilities</b>	...	...	...	...
<b>Pos.7th</b>	<b>G.</b>	<b>Rent</b>	...	...	...	...
<b>Pos.8th</b>	<b>H.</b>	<b>Maintenance-repairs</b>	...	...	...	...
<b>Pos.9th</b>	<b>I.</b>	<b>Telephones</b>	...	...	...	...
<b>Pos.10th</b>	<b>J.</b>	<b>Press passes</b>	...	...	...	...
<b>Pos.11th</b>	<b>K.</b>	<b>Services executed by third parties</b>	...	...	...	...
<b>Pos.12th</b>	<b>L.</b>	<b>Bank fee</b>	...	...	...	...
<b>Pos.13th</b>	<b>M.</b>	<b>Dues</b>	...	...	...	...
<b>Pos.14th</b>	<b>N.</b>	<b>Fees and taxes</b>	...	...	...	...

Pos.15th	O.	Movie licences, sports, coproduction	...	...	...	...
Pos.16th	P.	Protocol	...	...	...	...
Pos.17th	R.	Advertising	...	...	...	...
Pos.18th	S.	Show awards	...	...	...	...
Pos.19th	T.	Salaries	...	...	...	...
Pos.20th	U.	Meal vouchers	...	...	...	...
Pos.21st	V.	Depreciation	...	...	...	...
		<b>Total of expenses</b>	...	...	...	...

We see that at TVR, there are 21 large groups of identified expenses, from consumables, inventory items, fees....to salaries, meal vouchers, depreciation. In its turn, each group of expenses is detailed on a larger or smaller number of expenses items.

For example, for **Pos.1st A. Consumable items**, there is the following particularization:

	A. Consumable items	Jan.	...	Dec.	Total
A1.	supplies	..	..	..	..
A2.	setting	..	..	..	..
A3.	CDs, floppy disks	..	..	..	..
A4.	Cleaning equipment	..	..	..	..
A5.	standard	..	..	..	..
A6.	water, milk (labour protection)	..	..	..	..
A7.	Spare parts	..	..	..	..
A8.	fuel	..	..	..	..
A9.	Other consumable items	..	..	..	..
	<b>EXPENSES ON CONSUMABLE ITEMS</b>	...	...	...	...

In other train of thoughts, from the research carried out, we find that **within the SRTv, costs are divided into compartments and not into programs**. Each compartment of the SRTv has specific budget codes, as follows:

- The "B..." codes represent **direct expenses**;
- The "I..." codes represent **indirect expenses**;
- The "G..." codes represent **general expenses**.

The compartments subordinated to the PDG and to the Economic Directorate have only codes for general expenses. The other structures have codes for direct, indirect and/or general expenses. *Expenses on salaries* have only codes for indirect expenses, they are not allocated to programs, consequently they are not considered direct expenses, but exclusively

indirect expenses. **To our opinion**, this structure of expenses divided into compartments and not into programs is not sufficiently relevant to drawing up budgets of costs and, hence, to analyzing the performance of the SRTv. Background expenses on compartments and not on programs does not allow managers to make decisions that would lead to costs optimization and to an increase of the SRTv performances.

Getting back to the groups of expenses belonging to the *Draft Budget of Expenses* we have referred to above, we **propose** that for each *group of expenses* with the items of expenses it encompasses, we make a separation on categories of direct expenses, respectively production/general indirect expenses if these expenses are covered or not by the production of programs. For example, we propose the following particularization for the expenses group "A. Consumable Items":

	A. Consumable Items	DIRECT EXPENSES, if covered by programs	GENERAL/INDIRECT EXPENSE, if not covered by programs
A1.	supplies	x	x
A2.	setting	x	-
A3.	CDs, floppy disks	x	x
A4.	Cleaning equipment	-	x
A5.	standard	x	x
A6.	water, milk (labour protection)	-	x
A7.	Spare parts	-	x
A8.	fuel	-	x
A9.	Other consumable items	x	x
	<b>EXPENSES ON CONSUMABLE ITEMS</b>	<b>Total of Direct Expenses</b>	<b>Total of General /Indirect Expenses</b>

**Concluding** the above, it results that within the SRTv:

- expenses that fall into the television production (the programs) and which are mentioned in *framework quotations* are exclusively **direct expenses**;
- expenses that do not fall directly into the production of programs are **indirect expenses**.

This particularization of the content of each group of expenses, in order to know the direct and indirect expenses, both in total and per each category, represents *the first step in the process of drawing up a Budget of Costs*.

Based on the above, we consider that at the SRTv they can draw up a **General budget of production costs** which will sum up the information provided by the *Budget of Direct Costs* (BDC) and the *Budget of Indirect Costs* (BIC).

$$\mathbf{GBC = BDC + BIC}$$

**The Budget of Direct Costs**, can be, in its turn, a sum of at least three budgets:

- Budget of Direct Costs with Materials (BDM);
- Budget of Direct Costs with Salaries and Related Contributions (BDS);
- Budget of Other Direct Costs (BOD).

$$\mathbf{BDC = BDM + BDS + BOD}$$

**The Budget of Indirect Costs** is, in its turn, a sum of other two budgets:

- Budget of Indirect Costs of Production (common set costs, BICP);
- Budget of General Costs of Administration (BGCA).

$$\mathbf{BIC = BICP + BGCA}$$

We must certainly consider the **Budget of Broadcasting Costs**, too.

Due to the necessities of costs analyses, and in order to determine the profitability per each product (**TV programme**), in order to identify the concrete possibilities to reduce the production and broadcasting costs and in order to adopt the appropriate measures, the economists from the SRTv can also draw up a **Budget of Unit Cost per Programme**. At the foundation of such a budget there is the nomenclature of production expenses per calculation items.

We must identify the direct production costs **forecasted** for each product (TV programme) in particular. Then, the indirect production costs (common set costs), the general administration costs and the broadcasting/distribution costs are distributed to cost carriers, in order to calculate the production cost, namely, the full cost. The example of a **Budget of unit cost for the Tezaur Folcloric programme** at the SRTv is shown below:

*The Romanian Television Corporation*

**The Budget of Unit Cost for the TV Programme „Tezaur Folcloric”**

*Season: XV*

*Number of editions: 30*

*Duration: 50 min./edition*

<b>CATEGORY OF COSTS</b>	<b>Forecasted unit cost (lei)</b>
<i>Direct production COSTS</i> , of which:	<u>1,250,000.00</u>
a) Direct expenses with materials	500,000.00
b) Direct expenses with salaries and related contributions	750,000.00

	505,000.00
<i>Indirect production COSTS (common set costs), of which:</i>	390,000.00
a) Expenses on maintenance and operation of technical equipment	115,000.00
b) General set expenses	
<b>Production COST</b>	<b>1,755,000.00</b>
<i>Costuri generale de administrație</i>	60,000.00
<i>Costuri de difuzare</i>	89,000.00
<b>Full COST</b>	<b>1,904,000.00</b>
<b>Unit Cost per edition</b>	63,466.66
<b>Cost per minute broadcast</b>	59.33

The **Budget of unit cost** can be useful for the SRTv both at substantiating the income that can be earned from advertising and at performing the budgetary control of the respective structures. Budgetary control allows:

- Comparing achievements at different levels;
- Analyzing and controlling observed differences/deviations;
- Establishing appropriate corrective actions.

### 3. CONCLUSIONS

In an unstable economic environment, extremely competition, given the limited resources at hand, it feels all the more acute the need of forecasting various components of the SRTv, in order to obtain the desired performance. Therefore, the activity of the SRTv must unfold within the relationship of balance between income and expenses. In the current market economy, this company doesn't manage to maintain this balance, the costs of obtaining the production of programs surpassing by far, in some cases, the level of revenues obtained from production sale. Thus, in front of the managers, there rises the issue of finding some methods and tools to enable them to dimension and control the balance relationship between income and expenditure within the company they manage.

**Budget**, can and has to become, an instrument of harmonisation and streamlining the relationship between expenditure and revenues within the SRTv, and **costs budgeting** has to be *a systematic economic practice that involves the deployment of a formal process for allocating the financial resources in order to achieve the objectives laid down for the following periods.*

With the adoption of budgets, the performances of the SRTv can be assessed by reporting the results obtained to the budgets already drawn up. In other words, budgets will allow managers to overcome shortcomings by

using past results in order to analyze current results, namely: the past results include both results and the performances of past standards; by using previous results, we predict the future, though the conditions may vary.

The increased spreading of the use of budgetary technique results from the advantages of using budgetary systems. In order to reap the advantages of budgeting, managers at all levels of the company should understand and support the budget and all aspects of the management control systems. Managers, by planning future activities seek to anticipate certain issues, and also the way these could be avoided. Consequently, **budgets are those that provide a measure of the financial results that the SRTv may achieve as a result of planning some activities.**

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## **CONSIDERATIONS REGARDING THE SUPPLY AND DEMAND IN THE SERVICES MARKET IN THE ROMANIAN HIGHER EDUCATION**

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### ***Abstract***

*In recent years, the educational market in Romania has undergone major changes, the most significant being the increase of supplies of the Hogher Education institutions, especially of the domestic and international private ones, as well as of training and specialization programs for grown-ups. This paper examines the important aspects of the supply and demand in the educational service market in order to achieve new approaches, well documented which will also clarify this vital field for the education at higher level in the Romanian society. The purpose of this paper ist o add value and evidence for the causes and effects of the supply and demand in the educational market, their confrontation to ensure equilibrium conditions.*

***Key words:*** demand, supply, services market, Higher Education

***JEL Classification:*** D01, I21, I29, J24

### **1. Introduction**

The permanent process of the tranition through life has, for the Romanian society, a significant impact on the job structures and, hence, on the motivational and attitudinal ones, with direct and concrete effects on the educational supply. Stephen R. Covey stated that "...transformation – the real change – always occurs "from inside – to outside"...it arises from the work that toils roots, operating on our way of thinking, on the fundmental paradigms which define our character and create the lens through which we

see the world” (Covey, 1996). The need for education is felt at the level of each individual, differentiated based on his/her educational and cultural heritage. Thus, we see that the individual is simultaneously the *broadcaster* of the educational demand and the main *receiver* of the information provided by the educational system, a system that contributes to shaping the individual’s personality so as to become, as possible, a flexible individual, permanent adaptable to the changes occurring in society and performing in an economic and social environment which is constantly changing.

The demand for education at the level of university training has registered an increase of both individual demands, and institutional ones. A significant percentage of high school graduates hopes or wishes to enroll to college, invests important funds in order to be able to attend or graduate Higher Education; a sufficient number of adults receives or waits for the chance of change, conversion or upgrade of the professional qualification through university, the most requested institutions of Higher education being the Economic, Law and Academic-Pedagogical ones.

The need for education is real and pressing for all categories of population because “in the struggle for adaptation and change, firstly it is necessary to change the way we perceive and understand the things in the life we live. In essence, it is about the way we model simultaneously, by investing in ourselves, both the character and the entire personality, so that we could achieve a balanced self-renovation in the transition process...”. (Popescu C., Ciucur D., & Popescu I., 1996).

The demand and supply are essential components of any type of market, including of a possible market of educational services, and their analysis is meaningless if the market itself does not exist or if its existence is neither recognized, nor studied and conceptualized (Maselli, 2012).

The greatest endorsement for the current educational system in Romania should be the adaptation of educational strategy and politics to the requirements of the society and of the labour market. Currently, the possibilities of labour force integration into the national-economic area are limited by a series of factors which are related to the stiffness and the lack of the supply clotting, which makes difficult the analysis of its peculiarities.

## **2. Aspects of the supply in the services market in Higher Education**

What is significant for the supply in the services market in Higher Education is the fact that it directly influences the demand for education, people tending to orientate themselves towards schools and/or educational programmes which enjoy prestige and, at the same time, have the guarantee of quality. In such a context, a real and relevant analysis of the education supply is required, all the more a confused labour market, as it is in

Romania, produces the frustration of the qualified personnel who do not find supplies according to their expectations and, at the same time, creates opportunities for the unskilled labour force in economic activities, for example, to find better paid jobs in this sector.

Until a real labour market is formed, one which will regulate the relationship with the supply of qualified graduates, we need measures to limit and eliminate, in perspective, the dangers of the qualified personnel unemployment, massive emigration and professional sub-employment.

In this sense, the educational supply must be well-structured and convincing.

Creating a market of educational offerings through appropriate tendering conditions, a demand identified and supported by State authorities, involves creating a new environment in favour of new education, stimulating the reflection at all levels of decision and imposing the values resulted from social dialogue. Any educational offer is influenced by a series of factors which give dominance and quality to the respective offer. These *factors* primarily target (Suciu, 2000):

- ✓ *Institutional and organizational framework*, where the offer is diversified according to the routes of access to the system and to the level and ways of institutional and/or extracurricular organization;

- ✓ *Formative contents*, approached as components of intellectual nature of the respective educational offer; it aims at initial and continuing training profiles, primary curricular documents (plans and programs of study. These contents are continuously adaptable in conjunction with the exigences/requests of the economic environment (the labour market) and with the specifics of the reform of the informative-educative process. Viewed from the perspective of lifelong learning, there are more options for those educational programs that promote modern, interactive, of intellectual work techniques and modern methods of performance and skills evaluation;

- ✓ *Human resources* involved in the training and educational process in the spirit of market economy. The human resources aim both at teachers and at applicants (pupils, adult students), namely the human potential, as well as at the methodology of training which is proper to training in the domain of economic activities;

- ✓ *Material resources* for the instructive-educative process of economic level. They have integrated here the infrastructure and the teaching logistics, liable to modernization and suitability for the specific of teaching activities;

- ✓ *Financial management* of the educational processes, primarily of the processes of training and professional adjustment which include investments in human capital, expenses for education (public, private and individual). The financial management is required to be approached with

utmost responsibility, considering that resources are limited, and the assessment of the financial support to promote such educational programs to be real and pertinent.

The radiography of the educational offer in Romania highlights the existence of some shortcomings and weak points at the level of all factors previously mentioned, because of the structural changes which took place in Romania due to the change of the political system, a change which determines the reconsideration of the social-economic system from the perspective of free economy, market economy and of a flexible and crystallized labour market. Therefore, the educational offer must always be compared and adjusted according to the status and exigences of the educational demand. Regardless of the organizational framework in question, the purpose of such educational programs is the correlation, as possible, of the education market with the labour market.

With regards to the continuing training, via postgraduate education, we note that for now, the forms of permanent education are organized mostly in public educational institutions, including different types and ways of deepening specialization and perfection.

At the same time, the contents of educational programs are of extremely importance and aim at both the *cognitive components* of the educational process, which bring together aspects of intellectual nature of the economic educational offer, and the *actionable components* which include skills, abilities and competences specific to the training profile and, respectively, to the specialization direction. From the temporal – progressive perspective, the formative contents are continuously improvable, due to the developments on the educational and labour markets, as well as under the impact of socio-cultural and technical-scientific factors which ask for their reconsideration, enrichment and diversification.

The economic phenomenon, the mechanisms specific to the market economy, the imbalances of a society in transition can only be known, understood and adjusted by calling on science. Moreover, the supply and demand of education shall be balanced statically and dynamically, on the market, if only they surprise and interpret the evolutions of the economic behaviour of the consumer of education, on the short and long term, a behaviour strictly dependent upon the economic way of thinking and which, under risk and uncertainty conditions, is always atypical.

### **3. Aspects of the demand on the services market in Higher Education**

On the educational services market, the demand expresses the need of knowledge and competences that can be asked for both by individuals and by the economic agents and the society on the whole. The main

segments of population that require programs of economic and/or entrepreneurial education are: school population; the employed subject to poli-qualification, requalification, training/improvement; the unemployed subject to professional retraining; young graduates of high-school entering the labour market for the first time; economic entities.

*The demand for economic education, of individual level*, is formulated, mainly, by *persons of school age* who are already integrated into the national system of education and who realize faster and more correctly the beneficial effects due to the environment where they evolve, due to carrying out/completing some diversified programs of economic education. The individual educational demand reflects the rational economic behaviour of a consumer of educational services, willing to harmonise their preferences and interests with what the educational market has to offer and their own possibilities (Voiculescu, 2004).

A significant area of the demand for education is represented by the persons who enter the labour market for the first time. Their target is the high school graduates who do not continue their studies and are forced to acquire qualification by means of intensive programs so that they could insert into the labour market, this way the waiting time and/or the search for a job being reduced. Through intensive programs, the young graduate has the chance to avoid long-term unemployment, once he has graduated high school.

The demand for education is placed in the area of interference of the factors which determine the demand for goods and services, in general, and the well-known factors which determine the educational demand. In general, **the educational demand is determined** by the following categories of **factors**:

- ***The needs of the consumers of educational products, which can be: current needs***, detectable and *real* – which are recognized by the individual and imply a rational and calculated act – and *the requests or preferences* of the individuals, which can be induced by using various channels, and which are influenced upon by the environment, by morality, by the media and other means used to promote the educational offer, etc.

- ***The level of disposable income***, which determine the solvent demand. We're referring to both the income of the initial vocational training and the income available to every consumer of such educational goods and services. Findings in this area can be summarized as follows: when the income per capita increases, the weight of food expenditure stays constant, while the expenses on education, culture, spare time tend to grow. Consequently, the coefficient of elasticity for the expenses on education is greater than 1, it is strong and the expenses are the first to be affected by income increase or decrease.

• **Formation price of economic level.** Firstly, the price of the educational program is taken into account, which is a problem for those with low income or with lots of members in the family, who do not have their own sources of income. From this point of view, the price may become a significant social barrier for the individual investment in the educational human capital because it deepens social polarization; the equality of chances disappears or fades out.

In the absence of a firm and concrete intervention of the State, via social assistance programs to ensure subsistence and access to education, primarily, the training, adaptation and profesional reorientation, the disadvantaged categories of population will be part of both an institutional illiteracy and a functional one.

At the same time, the demand for education is determined by both the changes in the economic, political and social areas and by the individual needs of the students to get to know and understand the mechanisms and the practices of the market economy. It can be correctly and impartially perceived only by knowing and observing *the purposes of each level of education*. Therefore, the possibility to continue their studies is also a form of investment which, undoubtedly, will enhance their individual capabilities. Obviously, the decision to invest in educational capital is relatively arbitrary, as it is taken at an age when young people have a rather limited representation on the changes taking place on the labour market because they do not have enough experience.

**The demand for education at university level** – social and individual – is dependent on the following **factors**:

▪ *Proportion, of the population on the whole, of the persons who have the age specific to Higher Education (18/19 – 23/25 years);* this factor is influenced by the demographic growth rate. Attracting a larger number of highschool graduates with a baccalaureate diploma to Higher Education highlights the benefits of continued studies on the medium and long term, respectively of increasing the educational human capital.

▪ *Attending secondary school should be done in a significant proportion* (even with the risk of turning the society into an elitist one), in order to catch up with the developed countries in terms of the number of students and the global medium level of education. The high school feeds and the quality of the baccalaureate diplomas strongly influence the demand for Higher Education.

▪ *The demand for higher qualifications in the labour market is latent,* has a social character and is in continuous expansion, there are more and more jobs that in the past required a medium level of training are currently practised by persons with Higher Education. This trend is generated by the technological impact and by the need of performance within each job. As a

rule, the latent demand is adjusted by factors of the labour market, and the individual perception of its dynamics varies substantially. In the Romanian labour market, there is a gap between the market dynamics and the individual perception of this dynamics.

Another significant issue of the analysis of the demand for education, specific to university instruction, is represented by the corroboration of this level of demand with income distribution (knowing that the income received directly influences the demand for education). Specialists have come to the conclusion that irrespective of the price of an educational program, if it is demonstrated that its completion will result into revenue growth – within a certain period of time – then the quantity of educational services of this type will be higher than it was before the income growth.

The developments generated by the investment in the educational human capital come from various directions and trends of economic, socio-psychological, legal and political thinking, aiming at, primarily, *the demand for education* perceived as a consumer good (Eicher J.C. & Levy G., 1996) integrated into the general demand. According to this approach, explained by the example of Higher Education, when a candidate decides to enroll to an Economic university he simultaneously seeks future advantages and immediate satisfactions. It's about *the model of eligibility*, the student's behaviour is analyzed in the light of the eligibility of two markets – which are booked for a minority in advanced societies – “the life quality” market and “the elite” market.

Although the study of market education shows interest under all its aspects, both at entrance (the supply and demand market of educational services) and at exit (the supply and demand market of human educational capital), we will pay a special attention to a segment of this market, that is to *the demand for studies*. The premise from which we start is that the main form in which the demand for education (for educational services) imposes itself on the school institution is the demand for studies at entrance, which takes the concrete form of *the influx of candidates at entrance*, both quantitatively global and structural, by classes, profiles, forms of education or other criteria which define the internal structure of the study programmes that the educational institutions organize.

Any ignoring of the demand for studies at entrance, any quantitative or structural development that doesn't take into account the existent or potential demand will have the result the relative or absolute reduction of the number of candidates and, as a rule, the decrease of their quality. It is certain that attracting the demand for studies is not done simply by adapting to its structure, but by other means, too, such as promoting the prestige of the institution, developing social services (dorm, students' restaurant, various other facilities), improving the offer regarding the study conditions

(amenities, rooms), including influencing public opinion by publicity and advertising. Despite maximally exploiting these resources, the demand for studies is, at present, established while the limits to which it can be influenced are pretty reduced.

The need to knowledge and adjustment to the demand for studies remains, by all means, of utmost importance for drawing up the institution's strategy of any Higher Education institution. The analysis of the demand for studies at entrance involves, on the one hand, *knowledge of the factors* which determine or influence the process of demand for studies formation and, on the other hand, knowledge of the dimensions and of the qualitative and quantitative structure of *the segment for demand* which the education institution can attract and, consequently, to which it should address.

Regarding the analysis of the factors which determine or influence the formation of the demand for studies, there are usually four categories of factors: *demographic, economic, educative and psychological*. They are those resulting from the size, the dynamics and the structure of the population, as well as from the processes taking place under the aspect of number, of natural movement and of territorial, social, professional mobility, etc, regarded both globally and specifically, regarding the school-age population or, more comprehensive, the population to be schooled. Studying the demographic factors presents a special importance since the institution and the educational system cannot control but to an insignificant extent the evolution and the impact of these factors on the quantitative and structural dimensions of the demand for studies.

With regards to *the economic factors*, these are the ones that result from the level of development and the structure of the economy and which in fact determine the capacity of the society to financially and materially support the educational system. Their action makes the structure of the demand for studies to be not a direct reflection of the individual's interests and aspirations or of the community to access to a certain level of studies or to a certain professional or school route, but an expression of the economic possibilities to support studies, to support direct and indirect costs of schooling. In its concrete form, *the demand for studies is always the result of some reasons economically censored*, of some explicit or implicit calculations of efficiency which weigh the costs and benefits, the efforts and results, the needs and resources. Depending on their direct/indirect action on the demand for studies, we could mention: the level of real revenues of the population, the degree of financing of educational institutions and funding procedures, the structure and overall condition of the economy.

Naturally, the relationships between the demand for studies at entrance and the structure of the economy must be studied in the concrete context in which the institution of higher education operates, considering the means



the institution disposes of in order to influence the demand for studies.

The other category of *educative factors* are those related to the structure and functioning of the Higher Education system and are the result of interdependencies between the components of this system. They directly influence the demand for studies in that that, operating as a system, public education (state and public) represents the main supplier of studies the population addresses to, so that for each institution, the size and configuration of demand for studies depend not only on the economic and demographic factors, but on the way the global demand is distributed to similar institutions or the ones which offer comparable educative services. On the other hand, in the dynamics of its internal functioning, the Higher Education system produces its own demand for studies in a certain volume and a certain configuration, depending on the structure of these institutions' profiles.

Material capital, unskilled labour and human capital, as distinctive production factors, know a permanent mobility, depending on the situation of competitive market of each of them, so that *education, the consumer good*, has become a permanent component of the market, whose complementary forces are *the supply and demand of education*. ***The springs on which the educational market is set up*** are:

- *additional earnings of trainees*, based on which they have developed the gain model of human capital;
- *the costs involved in the demand for education* (that is the model of human capital demand/supply (Eicher, 1990

The paradigm of human capital, centred on the role of education as a variable of differentiation of earnings, is based on the following ***model of gain*** (Matei, Gh., 1996):

$$C_{gi} = f(QN_i, E_i), \text{ where:}$$

- C<sub>gi</sub> – the earnings of the trained;
- QN – innate qualities (natural) of the trained individual;
- E – education or productive characteristics acquired through human investment;
- i – a given individual.

The gain model distinguishes the human factor of production depending on the qualities and the training of the individuals. It highlights the correlation between these two components and provides a relatively simple explanation for the difference of individual earnings of the workers (employees), depending on their level of training and productivity, achieved based on training.

Educational **application/demand** (phrase used by J. Mincer and

Warren Edward Buffet) highlights the behaviour of the consumers of educational services. According to their theory, **the educational demand** can be:

✓ *individual* – formulated by the people looking for a professional route, of a rigorous specialization, of extra-qualifications or of reconversions;

✓ *organizational* – influenced especially by salary and the estimated duration of an employee staying within the respective organization;

✓ *national* – aiming at the correation of education with the general level of socio-economic development of the country.

The model of demand for education starts from comparing the costs of studies (training, education) and the supplement of gain anticipated by that individual who wishes to continue training. In a general form, **the model of demand for education** is as follows (Băbeanu M., 2007):

$$C = \sum_1^n \frac{K_j}{(1+r)^j}, \text{ where :}$$

C – cost of studies;

K – the difference during the j period between the net anticipated gains if it goes on with the investment in the individual and the net gains if this investment weren't achieved;

r – the rate of return on the investment in the individual, provided the training process continued;

n – number of periods after the completion of studies (if these are pursued through the implementation of additional investment in the individual) till the end of active life. This is achieved by reporting the number of years of active life to the duration of the period of extension of studies.

In essence, the model of the demand for education compares the anticipated efficiency (gain) of an extra year of study to that of an alternative investment of the same size in order to determine whether it is profitable or not for an individual to continue their studies or to get employed without further studies. This is called **dropped out revenues**. When the individual pursues their studies, he counts on getting, in the future, some higher revenues, called **anticipated revenues**. Further study becomes efficient if anticipated revenues are at least equal to the sum of the dropped out ones and of the additional expenses on training.

#### 4. Analysis of the supply and demand influence on the educational market in Higher Education

To achieve the analysis that is to be presented below, we have used as a source, the tempo – online data of the National Institute of Statistics in Romania, relevant to confronting the demand with the supply on the educational market in Higher Education and the data available at the moment of the completion of this approach.

**Table no.1.** *The situation of Higher Education Institutes and Colleges during 2010- 2013*

Serial No.	Name indicators	2010		2011		2012		2013	
		Public	Private	Public	Private	Public	Private	Public	Private
1.	No of Higher Education Institutions	56	52	57	51	56	51	56	47
3.	<b>Total</b>	<b>108</b>		<b>108</b>		<b>107</b>		<b>103</b>	
4.	No of Higher Education Colleges	422	207	410	204	405	191	405	185
5.	<b>Total</b>	<b>629</b>		<b>614</b>		<b>596</b>		<b>590</b>	

Source: Tempo – online data, INS, processed by authors.

The data presented in table no. 1 highlight the fact that the number of Higher Education institutes in the period under review dropped from 108 to 105, the distribution on public Higher Education being of 56 institutions as compared to the public education, which dropped from 52 in 2010 to 47 in 2013. At the same time, the evolution of the public colleges decreased from 422 in 2010 to 405 in 2013 as compared to private colleges which dropped from 207 in 2010 to 185 in 2013. The situation resulted from this data has made us specify that the reduction of their number was due to the institutional evaluations and periodical accreditations carried out by the Romanian Agency for Quality Ensurance in Higher Education (ARACIS) which, based on the inspections made there, have decided that certain universities and colleges, especially private ones, be abolished because they didn't meet the criteria and indicators necessary for functioning at a high level of a Higher Education institution. We appreciate that the supply of Higher Education institutions in Romania is pretty consistent, without taking into consideration other elements related to profiles or specializations which also dispose of a large range to cover the requests of demand on the

education market.

**Table no.2.** The situation of high school students during 2010 - 2013

Serial No.	Name indicators	2010	2011	2012	2013	Weight 2013/2010
1.	No of students enrolled	866,543	888,736	831,685	776,616	- 10.37%
2.	No of students - graduates	202,160	187,521	200,004	187,898	- 7.05%
3.	No of students who have passed baccalaur eate	112,223	101,655	112,223	104,321	- 7.04%
4.	Passing rate	55.51%	54.21%	56.11%	55.52%	

Source:Tempo – online data, INS, processed by authors.

Analyzing the data in Table No. 2 of the component related to demand for Higher Education, namely high school students, we have noticed that the number of students enrolled in high school is dropping from year to year, the decline rate in 2013/2010 being of 10.37%. We have identified the same situation in the number of graduates, the decline rate in 2013/2010 was of 7.05%. Regarding the passing rate, we have noticed that it has taken a little over 50% throughout the whole period. In this respect, we can say that the resulted situation can be explained due to the low birth rate from year to year regarding the number of students enrolling to high school, while in the case of the passing rate decrease, this was the result of the low preparation of the students and the introduction of the surveillance cameras which no longer allowed defrauding the baccalaureate exam. We can say that in such a situation, in the labour market, nowadays, they no longer lay emphasis on the diploma, but on the efficiency of the competences acquired in a particular field.

**Table no.3.** The situation of the students in Higher Education during 2010 - 2013

Serial No	Name indicators	2010	2011	2012	2013	Weight 2013/2010
1.	No of students enrolled	673,001	539,852	464,592	433,234	- 35.62%
2.	No of students - graduates	186,900	136,671	111,028	No available data	-
3.	Passing rate	27.77%	25.31%	23.89%	-	-
4.	The degree of the population's enrollment in education, age group 19 – 23 years and over	70.1%	59.7%	55.4%	54.5%	

Source: Tempo – online data, INS, processed by authors.

Given the data presented in Table No. 3 on the situation of the students in Higher Education during 2010 – 2013, we have found that the number of the students decreased from year to year during the period under review and in the year 2013/2010, it was reduced to 35.62%. The same trend was noted for the number of graduates and of the passing rate, substantial reductions being highlighted every year, all these having as main reasons the poor training of the students during university years, the lack of financial means necessary for the payment of tuition fees, as well as the increased rate of school dropout because of many objective and subjective factors. With regards to the degree of inclusion of the population in education – the age group 19 – 23 and over – the possible, main component of the demand in Higher Education evolved over the period under analysis in the sense of a considerable reduction, reaching a percentage of 54.5% in 2013 as compared to 70.1%.

The main conclusion drawn from the analysis presented highlights the fact that there is an imbalance between the supply and demand in the services market in Higher Education, aspect that will be considered in the next step of development in this field and which will lead to a shift of the balance between the supply and demand in the education market, from costs

towards the capitalization perspectives, on the medium and long term, of the beneficiaries.

### **Conclusions**

Access to education is considered a fundamental right of the individual in all civilized countries. Many of the Higher Education institutions have begun to feel the competition, and this is reflected into changes within the organization and the way the business is conducted. Therefore, new entrants on the educational market, not being fed with budgetary resources have been constrained to conduct a more dynamic and efficient activity, which has led to more careful approaches of the market and of the clients' specific needs. In this respect, the suppliers of educational services have considered the analysis of the environment where certain applicants conduct their activity in order to make possible the initiation of some offers in direct dialogues with the beneficiaries of the services.

The analysis of the existing demand and supply in education in Romania highlights both achievements, that constitute grounds for hope and satisfaction, and some distortions arising particularly at the level of relating the supply with the demand in education, the latter exceeding the possibilities of offering of the national system of Higher Education, due to the structural modifications produced in the labour market and, implicitly, due to the increase of need to invest in human capital so as to achieve economic growth.

To conclude, we believe that the profound transformations that have affected the educational market, too, call for major decisions regarding the reports between the demand and supply in this market, taking into consideration both the needs and the expectations of each of those who require them in order to achieve the desirable balance within this primary area of the Romanian society.

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## **ENERGY AND INNOVATION SECTOR SEEN AS ESSENTIAL FACTORS OF ECONOMIC SECURITY IN THE THIRD MILLENNIUM**

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### **Abstract:**

*The energy and innovation sector are key components of the economic security of Romania. In order to be able to keep the high standards with other competing countries with which Romania competes in different economic sector, our country must have a strong and independent energy and innovation sector.*

**Keywords:** *risk, Romania, energy, informatics crimes, economic, security, innovation.*

**JEL Classification:** A10 – General, F00 – General, F01 - Global Outlook.

### **1. Introduction**

The energy and innovation sector are key components of the economic security of Romania. An economy characterized as efficient and competitive, continuously growing which can adapt to the requirements of European integration and globalization (D. Muresan, 2006), is an important pillar of national security, thus ensuring economic security and social interest of the majority of population, support for democratic institutions and the basis for initiatives to promote the prosperity and security of the Romanian nation.

Strengthening and improving the activity of the institutions and market economy mechanisms, based on the principle of free competition and social solidarity is a priority, given the fact that it is increasing the need to keep up with European Union countries, countries which have a increasing trend of development.

Sustainable economic development, sustained by a development plan capable of attracting strategic investments, generate jobs and produce resources for social protection is the only way capable to lead to a significant reduction of the gaps which apart Romania from to the European average. The existence of well-grounded policy (T. Frunzeti, D. Buse, 2010) for identifying and making efficient economic objectives that ensure national security, has as objective stimulating work, performance, equity and solidarity participants in socio-economic processes, policies that will involve the consolidation of national security.

An important role in ensuring national security is given to energy security.

Our country possesses an impressive structure in terms of electricity production but also in the extraction of petrol and natural gases. In the XXI century when the need and consumption of energy is higher and higher, the fact that Romania has significant capabilities in the production of electricity by having a well-developed system, and having a continuous trend of growth in the hydropower-electricity system, the existence of coal reserves and the possibility of processing coal in power, the existence of a nuclear power plant at Cernavoda and the existing interest of building new reactors that would lead to duplication of nuclear energy production possibilities, make all these aspects lead to the creation of a stable framework to support economic development and thus provide a climate of national security. Also, Romania must implement policies designed to have a continuously adapted and optimized operational structure of consumption of primary energy resources and energy efficiency. To this end, it will act with priority: reducing dependence on supplies from unstable regions or states that use energy as a tool of political pressure; accelerating programs of energy production in nuclear power plants.

The paper aims to highlight how important is economy in maintaining national security for Romania.

## **2. Energy Security of Romania. General Aspects**

In the climate and the evolution of the events after 2000, the role of energy resources occupy an important role in the economic security strategy of any state in the world. In the present, oil and natural gas continues to represent an extremely important role in economic development, but also in ensuring the economic security of a state. A high price for those who buy energy or a low price for those who sells energy can mean progress or regress to beneficiary states which provide or need such services.

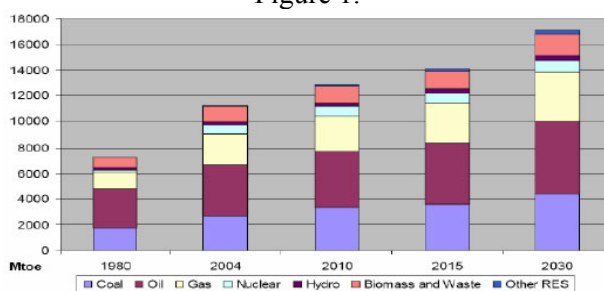
Understood on a large-scale, energy security represents to possibility for a state to have energy resources, control of distribution routes and

energy resources. As a consequence, economic security based on energy security can only be achieved by having sufficient energy resources.

Energy security can also represent besides holding and processing of energy resources such as oil, natural gas or electricity; also controlling transportation of such resources from producer to consumer. The fact that a state has no energy resources such as oil or gas or produce energy and electricity, does not mean that a state cannot act as a player which will give the advantage to benefit from good prices for such resources. A good example of this is given by the states on whose territory is being transited by network transports for energy resources such as natural gas, oil or electricity, resources to countries that do not benefit from such resources or they cannot provide the entire necessary production need. The attraction of investments to Romania from energy producing states (states which have energy resources), besides investment can mean also investment in structures/installations and the possibility to benefit from prices much convenient that eventually will rebound to the benefit of the national economy. The existence of energy transport routes such as natural gas resources transport routes can result in the possibility for the transit state to choose the seller who offers the best price for sale of energy resources. Making progresses in this area of energy security can be achieved only in the context of efficient and determinate political and economic relations with the states, but also with a correct application of EU policies and strategies of European Union.

Currently, energy security circumscribes both supply and demand of energy and may have one of the following meanings: physical availability of energy resources, energy accessibility in terms of price, safety of energy demand with the impact on producers' income stability and energy exports.

Figure 1.<sup>1</sup>



Evoluția cererii mondiale de energie  
Sursa: WEO 2006, OECD/IEA 2006

<sup>1</sup>[https://www.google.ro/search?q=securitatea+energetica+a+romaniei&rlz=1C1CAFB\\_enRO615RO615&espv=2&biw=1280&bih=879&source=lnms&tbm=isch&sa=X&ei=jj5CVfWKKcn4UJregeAC&ved=0CAYQ\\_AUoAQ#tbm=isch&q=securitatea+energetica+a+romaniei+grafice&imgcr=ov6PiZDavqACDM%253A%3Bu6Lv51A4BxsCZM%3Bhttp%253A%252F%252Fsir.datawave.ro%252Fimg%252Fcontent%252Ffaza4%252F1.jpg%3Bhttp%253A%252F%252Fsir.datawave.ro%252Ffaze-predate%252Ffaza4.html%3B527%3B290](https://www.google.ro/search?q=securitatea+energetica+a+romaniei&rlz=1C1CAFB_enRO615RO615&espv=2&biw=1280&bih=879&source=lnms&tbm=isch&sa=X&ei=jj5CVfWKKcn4UJregeAC&ved=0CAYQ_AUoAQ#tbm=isch&q=securitatea+energetica+a+romaniei+grafice&imgcr=ov6PiZDavqACDM%253A%3Bu6Lv51A4BxsCZM%3Bhttp%253A%252F%252Fsir.datawave.ro%252Fimg%252Fcontent%252Ffaza4%252F1.jpg%3Bhttp%253A%252F%252Fsir.datawave.ro%252Ffaze-predate%252Ffaza4.html%3B527%3B290)

To enjoy a well-consolidated energy security, Romania should avoid situations such as the interruption of supplying industrial consumers and producers of energy resources. These disruptions can have as factors besides political interests and geostrategic interests, factors such as natural disasters or terrorist threats. Consequently, the energy security of Romania could have threat factors such as: physical destruction of the supplier or importer infrastructure caused by natural disasters, geopolitical, terrorism or war. At the same time the economic interests of a competitor state can lead to threats to the economic security of Romania.

Perhaps the greatest recent danger to the security of Romania's energy is given by the need in some cases to energy resources will have to be procured from abroad, and by increasing prices or by imposing increase prices by the manufacturers or suppliers who hold supremacy in the energy sector. This will result in the effect of creating a climate of social insecurity and economic sector significant losses. A good example in this case is represented by the energy supremacy of the Russian Federation which has the advantage of holding vast natural resources and in the context of European countries dependence of Russia's energy resources, Russia can impose disadvantageous prices and offers to consumers for the provided energy resources. In some situations, the suppliers in order to achieve their economic and political plans can decide on their own without being affected, to cut off the supply of energy, thus creating significant losses to European economies.

Although it is not a problem at the moment, the possibility of existing in the future of a situation in which it will be achieved maximum production of natural energy resources and the demand will be bigger than production, it will result in a threat to the economic security to world states, which could degenerate even in military wars.

Last year's projections indicate an increase in the need of energy resources worldwide. The International Energy Agency highlights for the next period an increase in renewable energy resources but also natural gas. It is estimated that a quarter of primary energy needs worldwide will be covered by coal. In this respect, Romania still holds significant coal resources, thus creating an advantage in terms of economic security of Romania in relation to other neighboring countries. Also Romania has perfected and has accomplished the indicators imposed by the European Union regarding the capabilities of producing energy from wind sources. I want to highlight the fact regarding Romania's possibilities of producing energy from wind sources, as wind energy does not demand the consumption of raw materials and it is also a nonpolluting producing source. Also wind is a resource which has no limits in using its potential.

Given the events of recent years, energy security seen in the years 2014-2015, we can say that economic security has significant implications on politically militarily and socially level.

### **3. Innovation & TIC**

The development of TIC and innovation sector represents a defining element in developing the security strategy of Romania, especially in the context of new economic national security threats.

The emergence of international risks and threats of a new type, complex dynamics of internal environment and the substantial change of security status of Romania in the international arena requires a new approach in integrating, systemic and comprehensive approach to internal security objectives. At the same time, the experience of major terrorist attacks in the United States (which took effect as the first American stock market crash and the challenge of significant economic losses) or other countries, highlights the need for an appropriate strategy for the protection and defense of life, liberty, human dignity, goods and activities on national territory, in particular by threatening factors generated by the area of innovation & TIC.

Although economic security is seen as a whole, the existence of economic security cannot exist without the existence of internal security viewed as a whole. Thus in order to achieve economic security in terms of Innovation & TIC domain, we must see economic security as all activities designated to protect, guard and defend the inhabitants, human communities, infrastructure and property against asymmetric threats of military or non-military, which endanger the life, liberty, property and human activities and communities, the infrastructure and socio-economic activities, and other values at a level of intensity and scope significantly different from the usual situations.

As part of ensuring economic security closely linked is the innovation and TIC segment, a segment that requires constant training and efficient equipment for the Romanian state institutions so that the competent institutions can be prepared to face the dangers of this kind.

Ensuring a innovation and TIC competitive sector is also very important as this sector is a sector that generates significant revenues to the state budget, and the steady growth of this sector can mean besides generating financial resources it can generate new techniques for national defense security programs, and techniques aimed at supporting stability means for the economic security of Romania.

Also Romania must constantly exercise a common policy EU in the Innovation & TIC sector, given that innovation has been placed at the center of EU strategy on growth revenues and increasing job numbers. Member

States are encouraged to invest 3% of GDP in research and development by 2020 (1% of public funds, 2% of private investment), which is estimated to generate 3.7 million jobs and would lead to an annual increase of EU GDP by about 800 billion euros. The initiative of states regarding the purpose of innovation, directs the efforts of Europe (and cooperation with countries outside the EU) to address major current challenges: energy, industrial safety, climate change, population aging. The public sector will be used to stimulate the private sector and remove bottlenecks which prevent ideas reach the market, including lack of capital, fragmented research systems and markets, inadequate use of public procurement for innovation and slow adoption of standards.

European Union makes efforts to create a single European Research Area that enables researchers to work in any EU country and within which to be supported and encourage cooperation's between countries.

The task of ensuring economic security of Romania is complex and interdependent. It involves responsibilities of a large number of institutions. The responsibilities regarding these aspects belong mainly to: public administration and public order structures and those structures dealing with the prevention and management of civil emergencies, border security and coast guard; structures of intelligence, counterintelligence and security.

Given the higher risks arising from the possibility of terrorist attacks and economic sabotage generated by countries with which Romania is competing, including the use of means and cyber-attacks on IT systems, this fact involves making constant investment and constant training of staff in charge of detection and prevention of attacks. Regarding the presented aspects, ensuring internal security nowadays is becoming more and more complex.

The need for constant innovation by implementing the latest technologies for economic entities from Romania and also to institutions in charge with ensuring the country economic security are imposed also by demands promoted by the European Union. This causes an increased interest from the point of view of national security, for such a vast, complex and vulnerable area, with direct impact on people's lives.

Considerable investments were made in the IT sector from Romania and modernizing centers which perform in this area in recent years have made this segment of the economy to experience a steady growth and development. Currently human resources instructed in special institutions from Romania, gives the possibility of development considering the high level of training of human resources in this field. Moreover, the existence of well-trained human resources has resulted in attracting new investors, by coming in Romania new foreign corporations that have generated well-paid jobs and thus that led to significant revenues for the state budget. Also, the

existence of strategies to increase the number of people specialized in innovations & TIC can mean generating additional economic resources for the state budget, resulting in strengthening the economic security of Romania.

Also, the concentration of public resources would enhance scientific niches where Romania has comparative advantage, and will allow possibly creating new niches of excellence.

Following the principle "resources follow excellence", internationalization and concentration will catalyze interdisciplinary collaborations and, through them, they will stimulate science with results that answer questions of general interest.

Finally, basic research plays a vital role in training future researchers and specialists in any medium and for any profile.

The main actions are oriented access to knowledge and basic research and exploratory frontier.

Currently, Romania continues to be below the European average in terms of intellectual property indicators. Part of this reality is reflected in inadequate investment in business area research, including multinationals area. Consequently, the legal framework of intellectual property, along with education programs which have to support researchers and support services, constitute the main points of intervention strategy, including:

- adopting inventions law in a way that encourages private sector innovation and, in particular, the location of RDI activities in Romania;
- implementing an action program of indirect support for research, training of researchers and engineers in industrial rights issues and intellectual property;
- development in public institutions of capacities for innovation marketing;
- facilitated access to support services and marketing innovation;
- encouraging the obtaining and exploitation of intellectual property.

Given the higher risks arising from the possibility of terrorist attacks and economic sabotage generated by countries with which Romania is competing, including the use of means and cyber-attacks on IT systems, it is necessary in this constant realization of investments and constant training of personnel responsible with detection and prevention of attacks. Making constant investment is required since the internal security responsibility becomes increasingly complex and diverse as in the present there is a constant increase of threats to economic security.

#### **4. Computer crimes seen as risk factors for the economic security of Romania**

As outlined above, computer crime is the phenomenon that obliges the state to invest important financial resources for training and equipping the institutions responsible for maintaining steady economic security of Romania. Computer crime is that contemporary phenomenon, often reflected in the media sector. Moreover, the number of cases of computer crime is growing and increasingly dependence on daily economic activities which require the existence of a safe informatics system makes attention and interest on this field to be increasingly higher.

Facilities and opportunities offered by the Internet have transformed many business activities due to increased speed, ease and the distance at which you can perform different economic and financial operations with few financial resources. Individual persons or groups which are carrying out activities of informatics criminality found that Internet provides new opportunities and many benefits for illicit business. The dark side of the Internet involves not only fraud and theft online but also criminal organizations, organized crime groups affecting the economic interest of the State in all fields close by activities of cyber terrorism activities, money laundering, drug trafficking, stealing resources from customer accounts banks, ect..

After scope and the role which can be plaid by a computer system (which includes any notion of personal computer, electronic digital agenda, smartphones, internet-type network with its current network), in relation to committing acts that threaten the economic security by committing of crimes, we can define three roles for economic crime:

- personal computer seen as a target for criminal acts (example: unauthorized information accessed for acquiring economic benefits);
- personal computer seen as a means of achieving crimes (example: a personal computer being used to access classified data of economic importance);
- personal computer seen as a store of possible evidence (example: mailing lists, web pages, images, maps that stores information about the movement of people in different areas, contact addresses, phone numbers, ect.).

The legislative system in Romania ensures the legal sanctioning for crimes which have economic impact and implicit in their entirety by preventing dangers against the economic security. The legislature has pursued indirect besides punishing persons who criminal commit offenses



and offenses against confidentiality and integrity of data and systems or offenses of child pornography through computer systems, also by preventing direct or indirect financial losses to national economy which are represented by not paying taxes either by the state or by destroying the lives of innocent people whose evolution in society is sometimes compromised economically and generates this way costs for specialized state bodies in charge of reintegration into society, and using specialized treatment offered to affected persons.

### **5. Specialized bodies in ensuring economic security against risks that may affect the IT sector**

The task of ensuring the economic security of Romania and default prevention to risk factors and effective risk fighting against the Safety of Romania's economic is complex and interdependent. It involves responsibilities of a large number of institutions and agencies. Responsibility for this lies mainly to: public administration and public order structures and those dealing with the prevention and management of civil emergencies, border security and coast guard; structures of intelligence, counterintelligence and security (SRI, SIE, STS, MAI, SPP).

Given the higher risks arising from the possibility of terrorist attacks and economic sabotage generated by countries with which Romania is competing, including the use of means and cyber-attacks on IT systems, stopping and prevention of such threats requires constant achievement, constant investment and training of personnel tasked with detection and prevention of attacks. Although this has the effect of making significant economic costs, cost which are very hard to support by the Romanian budget, channeling additional resources to institutions such as the ones mentioned above, must be a priority. This is supported by the fact that directing additional resources to these institutions has the effect of prevention for significant economic losses, losses which can hardly be repaired and supported by the Romanian state and Romanian society as a whole, in case that they are produced. Therefore constant equipping with new equipment, training human resources from specialized agencies and the adoption of comprehensive programs for institutions in the field is a necessity in maintaining economic security.

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## **INTEGRATED REPORTING - THE FUTURE OF FINANCIAL REPORTING**

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### **Abstract**

*From investors' point of view, financial results are not sufficient to offer an overview of a given business. To provide an overview on the activity of an entity, reports will need to include both the traditional financial and non-financial part to provide information on sustainable development, the impact of the activity on the environment, and social responsibility.*

*The main purpose of this article is to ascertain the current state of social responsibility concerns and integrated reporting entities, given the need for a more comprehensive reporting system, showing how the activity of large companies affects the public interest, environment and society.*

**Keywords:** corporate social responsibility, integrated reporting.

**JEL classification:** M14, M41, O47

### **1. Introduction**

Accounting information plays a critical role in our contemporary world. As part of economic data, accounting information has seen its share of progress, and the circuit of accounting data has been permanently brought up to date by changes taking place at a global level. As it follows, accounting information must adapt to capital markets throughout the world, thus turning the science of accounting into an “internationally spoken language” that all users can understand.

The development and adjustment of the accounting system used in our country, in keeping with the trends observed at a European and international level, are aimed at creating a shared framework for preparing and presenting accounting data, which would provide credible and relevant information for all users. This development of the national accounting system can significantly help improve accounting data in that which

concerns the amount of information, with the aim of increasing the trust of both internal and foreign investors, as well as that of credit institutions and of the capital market

However, the actual performance of a given entity is established based not only on the financial data provided by the accounting records, but also on several qualitative elements (the quality of the resources used: technological, material, human) that play a decisive part in determining its size, therefore such elements must be taken into account when establishing the performance of said entity.

The effects of the global economic recession have raised questions about the reliability of financial reporting and have made it obvious that a more comprehensive reporting system is needed, one that can show how the activity carried out by large companies influences public interest, the environment, and society.

Integrated reporting means a new step of corporate reporting, given that, in order to provide a comprehensive picture of the activity carried out by a given corporation, this type of reporting will include both the traditional part – the financial data – and a non-financial part presenting information about sustainability and long-term development, as well as the impact of the activity on the environment, human capital and social responsibility.

At the moment, the corporate environment sees a dramatic increase of the moral requirements it is subjected to, due to the increase of the social influence of business units as a result of their growing economic force, which, in its turn, leads to the apparition of a certain set of moral obligations that said units must commit to. This is known as the social responsibility of entities, specifically corporate social responsibility (abbreviated, in that which follows, as CSR). Social responsibility entails disclosing both the positive and the negative impact of the company's operations on the work standards, on the environment, on economic development and human rights.

Several organizations [such as KPMG and ACCA] have conducted studies regarding reporting trends in the field of CSR, both at a European and at a national level, as well as regarding investors' expectations from corporate reporting. There are also articles providing an analysis of how important integrated reporting appears in the eyes of investors [Couldridge D., 2014, Shital Jhunjunwala, 2014]. Several authors discuss and assess the provisions of the Integrated Reporting Framework drafted by the IIRC, while also analyzing the information that an integrated report must provide [Shital Jhunjunwala, 2014, Graham Terry, 2014, Bunea Stefan, 2013].

## **2. Research methodology**

In that which regards the research methodology, the research method of choice for this paper was that of document analysis, since analyzing bibliographic sources allowed for insight into the content of the subject chosen. This article is a piece of descriptive research, aimed at describing the current state of the concerns regarding integrated reporting, a type of reporting that is particularly important for the relationship between corporate governance elements and environment elements, respectively subjects dealing with the social and human capital. Such factors as economic globalization, the domination of multinational enterprises, and the development of the capital market have led to an increase in the demand for complex information capable of reflecting the commercial, social, and environmental context in which organizations operate. Throughout the research, the method chosen was that of qualitative analysis, the aim being that of establishing value judgments and summarizing the most important conclusions drawn from consulting specialized documentation.

## **3. Corporate Social Responsibility (CSR) – concept and trends**

Although there is no clear and specific definition for the social performance of a given business unit, such performance may be equaled to the unit's concerns regarding various social aspects such as: encouraging ethical practices in its employment policy, contributing to the development of the community in which it carries out its activity, complying with the requirements of sustainable development, investing in social infrastructure, maintaining the environment as clean as possible, and so on and so forth.

The three pillars of sustainable development are as follows: economic, social and environmental development; in conjunction, they form the concept of sustainability. Assessing and following social performance is important because of the interaction between the three aspects of global performance [Pintea O. M, 2011]. According to empirical research conducted on the American market [quoted by Pintea O. M, 2011], it has been proven that a positive relationship exists between financial performance and the various aspects of social performance, in particular in that which concerns employees, customers, and the civil society. Thus, business units that stand out through an improved social performance can expect to obtain a sustainable financial performance.

At the moment we are witnessing an increase in the number of business units that are interested in this type of triple performance, which means they also aim to obtain a good environmental performance by mitigating the environmental impact of their operations through a series of

environment protection measures and by advertising such performance to the public.

The efficiency of social and environmental commitment relative to the ultimate purpose of sustainable development translates into an increase of the company's value, consolidation of its reputation, improvement of its financial performance, and a reduction of the cost of capital [Bunea Stefan, 2013].

KPMG, which analyzed the trends in reporting, with regards to CSR, for companies included in G250, as well as for another 3,400 companies throughout the world, all of them national leaders in 34 countries and 15 industrial sectors, found that almost half of the G250 companies claimed an increase in their financial value following the initiatives taken with regards to CSR. Corporate responsibility has thus moved from a moral imperative to a critical business imperative.

Reporting social responsibility practices does not constitute a priority for the Romanian business environment. Most Romanian companies adopted social responsibility policies only when they went public at the Bucharest Stock Exchange, forced by its Corporate Governance Code. Such policies were also adopted by Romanian subsidiaries of foreign companies which, to a large extent, had already integrated social responsibility in their corporate culture and already had significant experience in reporting social responsibility practices.

However, a survey of the local market, conducted by KPMG in Romania and which analyzed the companies included in N100 at a national level based on their income in 2010, indicated a significant increase, up to 54% of the companies in N100 providing reports on social responsibility, as compared to a level of only 24% in 2008. This significant progress reflects an improvement of the awareness concerning the importance of reporting for non-financial information, as well as of the financial benefits that such voluntary reporting may produce for the reporting companies. A survey of the main reasons why Romanian companies choose to report CSR aspects found that brand reputation and economic benefits are chief among them, which serves to show the companies' significant concern with their image on the market and with the need to improve relationship with stakeholders, but also awareness of the financial benefits entailed by disclosing non-financial information.

Although the number of Romanian companies that have adopted social responsibility reporting is still low, this is expected to change in the near future because, since November 2014, Romania saw the coming into effect of the EU Directive 2014/95/EU that makes it compulsory for large companies (those with over 500 employees) to report on a yearly basis a series of aspects concerning their social and environmental performance.

However, the European Parliament and the Council of the European Union have not enforced a standard reporting format for such information.

Therefore, at the level of the European Union, about 6,000 companies will find themselves forced to disclose non-financial information. In Romania, companies with over 500 employees total about 720. In that which regards the costs incurred by companies for non-financial reporting, they have been estimated to reach some Euro 5,000 per year. However, the companies that fall in this category are allowed to choose the aspects to include in their reporting, as well as the reporting format. The companies may choose to include the information they consider relevant either in their yearly financial statement or in a separate CSR report. In the future, to make reporting easier, the Commission wishes to draft a set of reporting guidelines, based on the most frequently used international standards.

#### **4. Integrated reporting**

Given that financial reporting alone cannot provide all the information needed for decision-making, several international organizations are currently working together to create an international framework for integrated reporting, so as to best ensure a connection between financial and non-financial information.

The general framework for integrated reporting accepted at global level, drafted and implemented by the International Integrated Reporting Council (IIRC), completed in December 2013, provides an innovative impulse for corporate reporting.

The International Integrated Reporting Council, set up in 2009, is a powerful representative of corporate leaders, regulators, financial markets, academic environment, standardization bodies, accounting professionals and NGOs. The aim of this framework is to create an integrated conceptualization, to establish the Guiding Principles and the Elements that regulate the general content of an integrated reporting system, as well as to explain the fundamental concepts that the system is based on.

“The integrated report is a brief communication on how the strategy, governance, results, and prospects of an organization, in the context of its external environment, lead to the creation of value on a short, medium and long term”. [General Framework for Integrated Reporting, International Integrated Reporting Council].

The General Framework for Integrated Reporting is based on the concept that the value a company creates depends on how said company uses its capital, as well as on how it interacts with the external environment. The company's activities and results lead to an increase, a decrease, or a

transformation of the capital. Value is created for the entity when value is created for other stakeholders [Shital Jhunhunwala, 2014].

The benefits of integrated reporting are summarized by Philippe Peuch-Lestrade, Deputy CEO of the International Integrated Reporting Council, who shows that financial information is critical, but not sufficient, and that integrated reporting proposes a change of focus on the true forces behind the development of a business activity. Another benefit stands in the fact that, beyond the integrating concept, it becomes possible to provide a more clear explanation of what the financial market calls the “value of intangibles”. Integrated reporting is a strong supporter of the “less is more” concept, which means the company must have a complete and holistic vision of its business activity, but also be able to present it as briefly and succinctly as possible, to make it easy to read and comprehend.

An integrated report explains how an organization creates value over time. But it's not the organization alone that creates value; it is also influenced by the external environment, through the company's relationships with the stakeholders and depending on various resources. Therefore an integrated report attempts to provide insights with regards to the following:

- the external environment that affects the organization;
- the resources and relationships used and affected by the organization, which are also known as capitals and are classified as financial, manufactured, intellectual, human, social, as well as relational capital and natural capital;
- how the organization interacts with the external environment and the capitals in order to create value in the short, medium, and long term.

Integrated reporting means an opportunity to present to investors and other stakeholders the organization's longer-term prospects, as well as the motivation and explanation of its vision, of the organization's strategies and results, thus contributing to decision making with regards to resource allocation in view of creating value in the long term, in particular for limited and non-renewable resources.

A survey conducted by the ACCA (Association of Chartered Certified Accountants), which was aimed at discovering the changes that took place in the investment environment after the global economic recession, inquiring about what investors expect from corporate reporting and how the companies, through their chief financial officers, respond to the ever changing needs of the investors, found that investors want more transparency from the companies and an integrated reporting system that should include both financial results and business decisions; however, companies are still reluctant to adopt integrated reporting. Thus, 93% claim to be in favor of companies adopting integrated reporting. From the



investors' point of view, yearly financial results, or even quarterly financial results, are no longer sufficient to provide an overall picture of a given business unit.

What investors want is to understand how the company will generate sustainable value within the environment in which it carries out its operations:

- \* What is the chosen business model?
- \* What are the risks and opportunities?
- \* What is the governance system?

Investors who place their money in a company's capitals have limited rights – the right to vote, the right to sit in the General Meeting of Shareholders, and the right to receive dividends, if such is the case. Given that the investments are geared towards an uncertain future, it is important for the investors to make an assessment as accurate as possible and to understand the company's governance system [Couldridge D., 2014].

At the same time, the ACCA survey shows that, while open to the concept of integrated reporting, finance professionals are still reluctant to become pioneers of this model. However, most of them claimed that they were planning to adopt integrated reporting in the near future, whereas only 10% said they were not interested in adopting this model, which also provides investors with non-financial information, because of the risks entailed: high costs, the risk of prematurely disclosing key information to the competition, and the risk of influencing the quality of the reporting process because of the need to speed up the reporting.

The survey indicates that most of the respondents are aware of how providing complete and transparent information improves the company's relationships with the investors. Some 40% of those surveyed are either planning to or have already taken steps towards adopting integrated reporting, a type of reporting that takes into account information available from various departments and attempts to provide a complete image of the company's performance.

Among the benefits of integrated reporting, the respondents mentioned the following:

- the competitive advantage entailed by the image of sustainable company that provides a complete and transparent reporting of its activity;
- the ability for an improved management of both opportunities and risks;
- the possibility of accurately identifying the factors that lead to a successful performance;
- improving relationships with the investors.

## **5. Conclusions**

Integrated reporting is the answer to the ever increasing demands of those investors who are looking for a more profound insight into the company's vision, by bringing together both financial and non-financial information and combining internal and external reporting, all of which, ultimately, translate into improved efficiency, transparency and consistency.

Observing results only from a financial point of view is no longer sufficient, which applies not only to external corporate reporting, but also to how organizations are governed. Also, an important role in the future reporting system will be assigned to accounting professionals and auditors, which is why the accounting profession will have to undergo the progress required by this new concept.

We believe that integrated reporting will add to the measures taken in recent years in view of ensuring comparability for the information produced and disclosed by corporations and multi-national companies, and will help with making decisions regarding the allotment of resources so as to create value in the long term, in particular in that which concerns limited and non-renewable resources, thus supporting sustainable development.

On the other hand, we agree with some authors [Graham T., 2014] who believe that integrated reporting is a very new concept and it will be many years before it reaches its maturity. The integrated frame of mind is even newer and will require quite some time before it is fully understood, but the organizations that are already using it are creating a significant competitive advantage for themselves.

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## **CONSUMPTION RISKS OF PESTICIDE-CONTAINING PRODUCTS**

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### **Abstract**

*The paper aimed to present consumption risks of pesticide-containing products. It is based on the statistical data provided by Ministry of Agriculture, Forests and Rural Development and National Institute of Statistics. The data have been processed into the following indicators: consumption of agricultural products, vegetable consumption, fruit consumption, meat consumption, the amount of pesticides used in Romanian agriculture and pesticide effects on consumer health.*

*During the analyzed period, the quantity of pesticide was decreased but the human health effects are worrisome.*

**Key words:** *consumption, agricultural products, pesticides, Romania.*

**JEL Classification:** A13, E2, Q10.

### **Introduction**

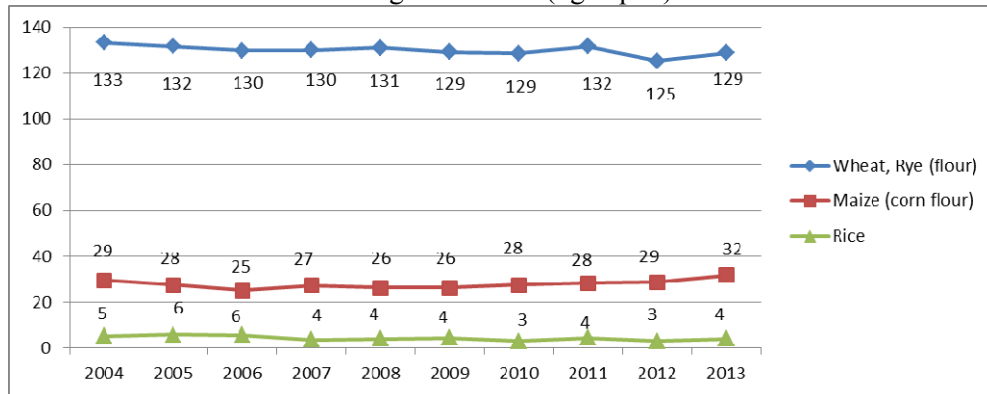
Nutritional requirement of each person varies by age, geographical location and activity. Nutrition has a fundamental role in human construction, this influencing each health and balance of each. A proper diet along with proper behavior ensures a healthy life. It is not important only what we eat, but when and how. Unhealthy food or inappropriately feeding mode produces health imbalances. On the market there are different types of products, some natural, other semi natural and semisynthetic, important is to know what to choose so health as not to have suffered.

#### *1. Characteristics of agricultural products consumption in Romania*

Food consumption of population reflects the standard of living. In Romania the biggest agricultural production is obtained at cereals. Foods used in big quantity are bread and potatoes. Analyzing the consumption of potatoes in the period 2004-2013 concluded that Romanians consume

around 100kg/year. Between fruit produced in the country, the main places are occupied by consumption of apples and plums, being located at considerable distance by consumption of sour cherry and cherry.

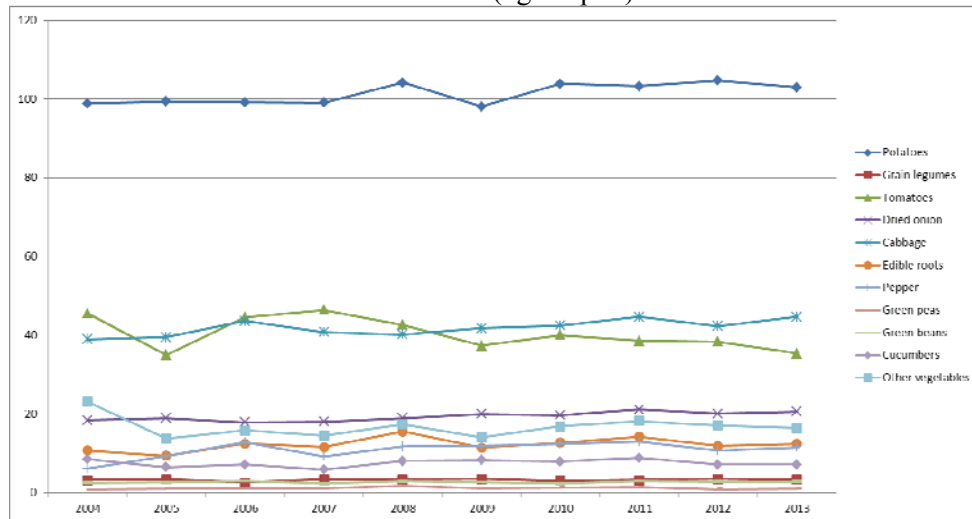
Fig.1. Evolution of the average annual consumption of products of the grain, during 2004-2013 (kg/capita)



Source: Tempo-online database, INS.

It is found (Figure 1) in recent years a slight reduction in the consumption of flour, average of consuming being 130 kg of flour annually/person. Corn flour consumption is relatively constant, the past two years is remarked increasing of consumption with 1-2 kg compared to average of last ten years. The quantity of rice remains constant in recent years, the average annual consumption for the analyzed period is 4 kg / person.

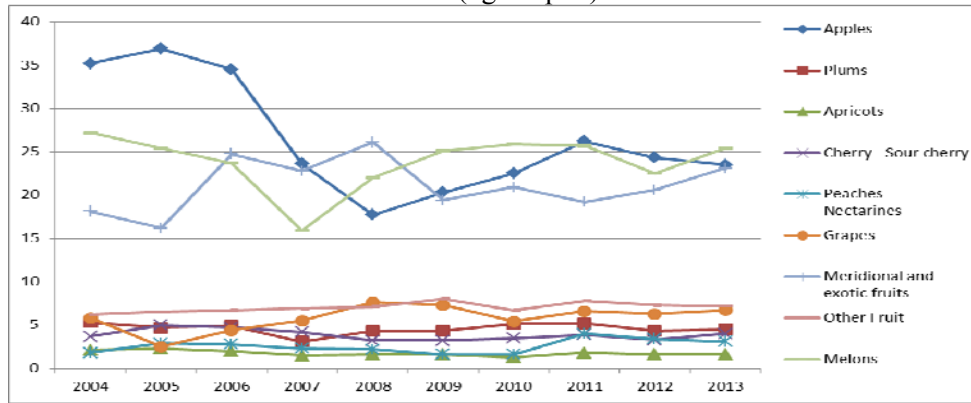
Fig.2. Evolution of the average annual consumption of vegetables, during 2004-2013 (kg / capita)



Source: Tempo-online database, INS.

The largest amount of vegetables used by the Romanian consumer is represented by potato (Figure 2), followed at considerable distance from tomatoes, cabbage and onions consumption.

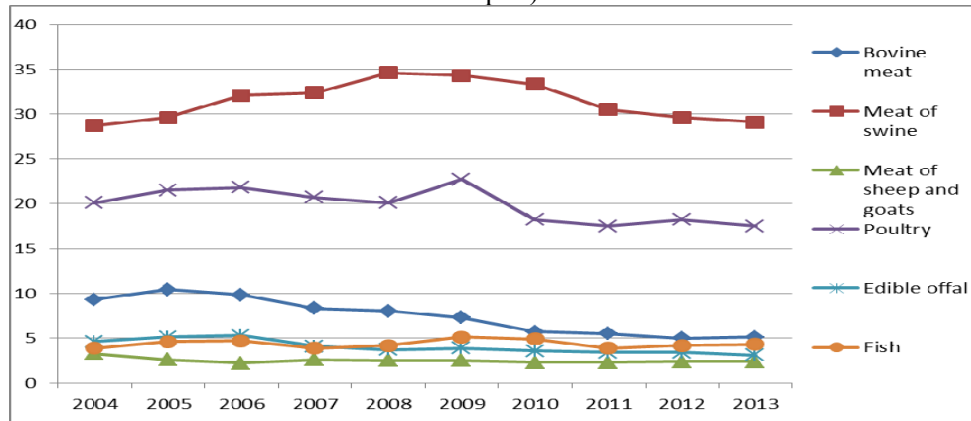
Fig.3. Evolution of the average annual consumption of fruit, during 2004-2013 (kg / capita)



Source: Tempo-online database, INS.

In the period analyzed, it was found that apples, melons and exotic fruits are among Romanian consumers' preferences (Figure 3). In last years the average apple consumption falls below the analyzed period, while consumption of melons, exotic fruit and grape is growing. The apricots, registered also ascendant consumptions in Romanians preferences, except years 2007 and 2013 when was recorded drought and production decreased.

Fig.4. Evolution of the average annual consumption of meat, during 2004-2013 (kg /capita)

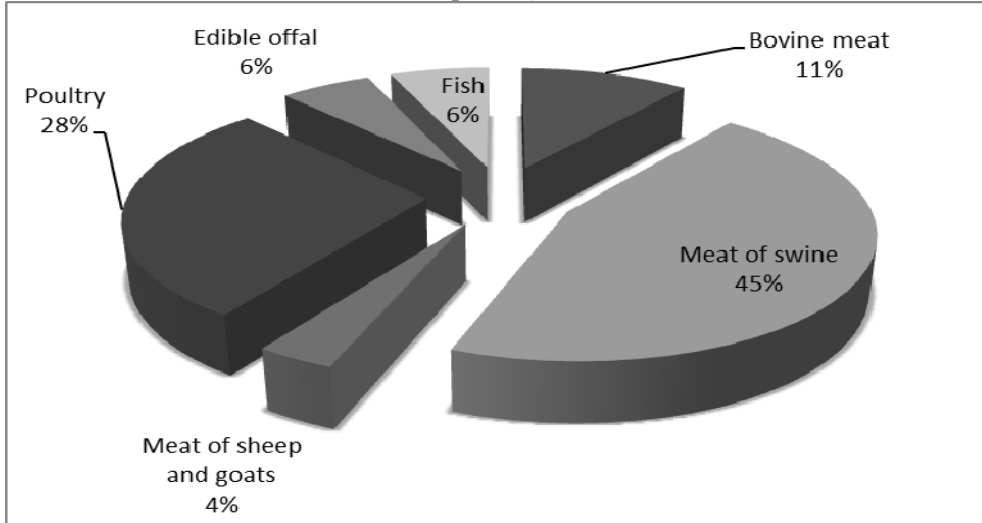


Source: Tempo-online database, INS.

Pork ranks first in terms of consumption of meat, followed by poultry consumption (Figure 4). In the last three years there has registered a

decrease in consumption of all types of meat, the largest drop being recorded in consumption of poultry meat.

Fig. 5 Evolution of average meat consumption during 2004-2013, (kg / person)

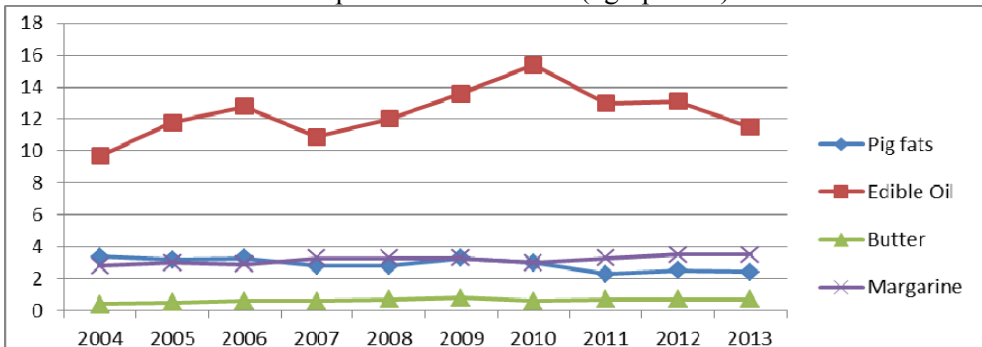


Source: Tempo-online database, INS.

It finds that in 45% of the meat consumed in Romania are pork, fish consumption and edible offal having equal percentage in Romanians' preferences.

Meat-eaters ingest 10-20 times more pesticides and herbicides residues in vegetables than vegetarians, because the animal fat that stored these chemicals.

Fig. 6. Evolution of vegetable and animal fat consumption (gross weight) in the period 2004 to 2014 (kg / person)



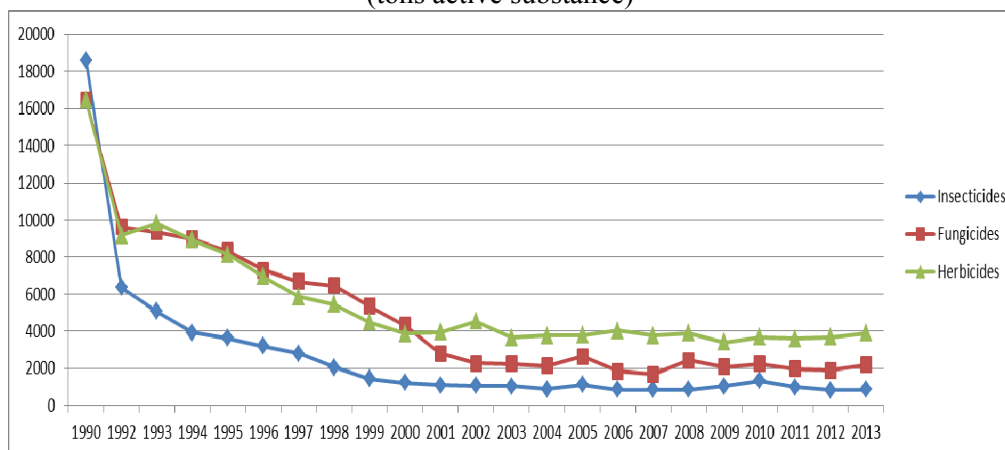
Source: Tempo-online database, INS.

The edible oil is the most used fat in Romanians food, the largest amount of oil being consumed in period 2010-2011 (Figure 6). Pig fats and



margarine registered approximately the same value during 2004-2014, but both have negative influence to human health.

Fig. 7. The quantity of pesticides used in agriculture, during 1990-2013 (tons active substance)



Source: Tempo-online database, INS. \*there is no data for the year 1991

The largest amount of pesticide was used in 1990; since 2001 the amount applied is relatively stable (Fig. 7). It finds that since 2001 the herbicides are used in the largest quantity.

## ***2. The effects of pesticides used in agriculture on consumer health***

Due to increase of agriculture and pest adaptation to existing substances, was needed of new substances, so after year 1944 has developed the industry of synthetic pesticide. They are a source of toxic risk due to persistence in soil, plants and organisms.

Pesticides are chemicals products used in combating pests plants and for ensure a good storage of agricultural products, as well as for control of biological vectors of human or animal diseases. Pests include microbes, plants and animals in competition with humans for food, who destroy property, diffuses diseases or produce calamity.

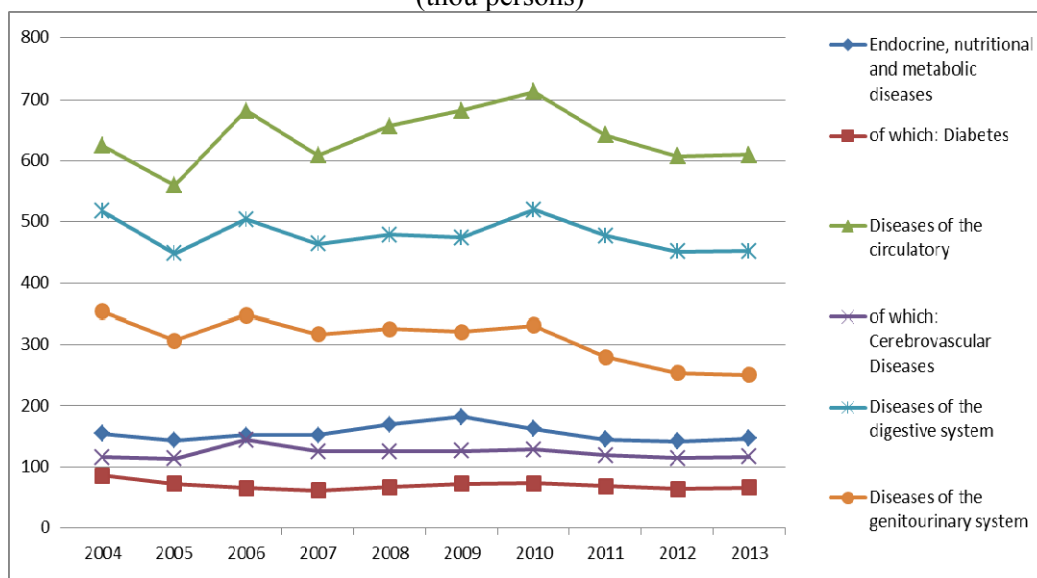
Pesticides are substances or mixtures of substances that contain biologically active ingredients against pests. The ingredients biologically active are, in general, toxic substances with potential to damage the environment. Many pesticides are toxic for humans. For these reasons production, packaging, storage, transport and use of pesticides are regulated by law.

After an analysis of MARD in 2011 was concluded that lemons, oranges, grapefruit, table grapes, apples, lettuce and spinach are the most contaminated with pesticides (Table no. 1).

Table no.1 Analysis carried by MARD at fruit and vegetables in 2011

Name	Number of samples analyzed	Number of samples with pesticide residues	Percentage of local products that present pesticide residues	The pesticides detected in vegetables and fruits
Lettuce	76	20	75%	Clorotalonil, pirimetanil, bifentrin, ciprodinil si fenhexamid.
Tomatoes	185	41	68.29%	
Spinach	53	10	100%	
Grapefruit	41	41	-	Clorpirifos, pirimetanil, ortofenilfenol, ciprodinil si boscalid
Lemons	30	27	-	
Oranges	60	40	-	
Grapes	78	42	28.79%	
Apples	207	73	28.79%	Clorpirifos-metil si pirimifos-metil
Wheat	91	10	100%( all samples which was analyzed are from domestic production)	
Rye	14	1	100%( all samples which was analyzed are from domestic production)	

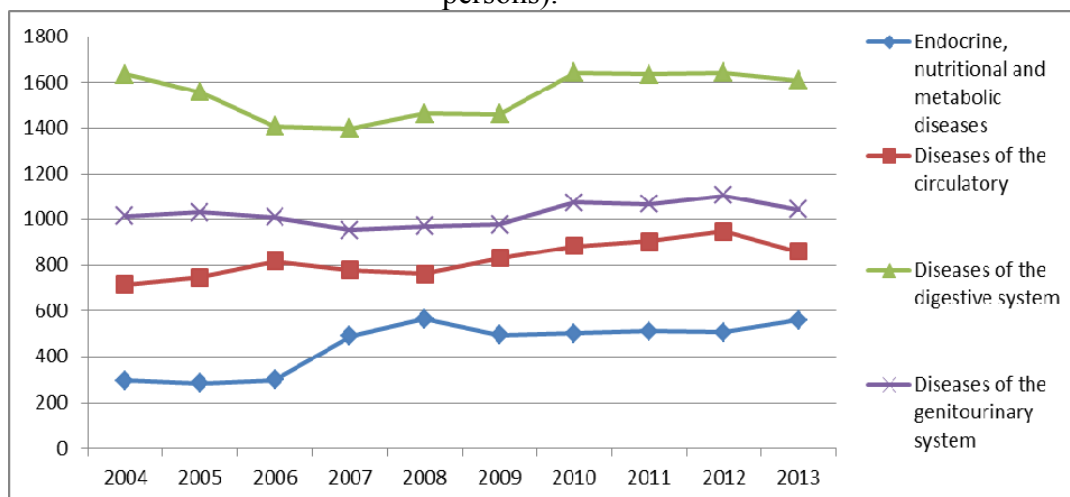
Fig. 8. The number of patients out of the hospital, in the period 2004-2013 (thou persons)



Source: Tempo-online database, INS.

Of the total diseases, the first places are occupied by diseases of the circulatory, digestive and of the genitourinary system (Figure 8).

Fig.9 New cases of sick persons registered during 2004-2013 (thou persons).



Source: Tempo-online database, INS.

In the last four years was an increase in the number of new cases diagnosed with diseases of the digestive and circulatory (Figure 9), mainly due to the consumption of foods that the body does not tolerate. Cardiovascular diseases, tumors, digestive diseases, respiratory diseases and accidents are, in this order, the five main causes of death nationwide, according to a report released by the College of Physicians in Romania (CPR).

*The effects of pesticide utilization:*

- modify DNA sequences, initiating the development of cancer,
- increasing the amount of sugar and fat in women blood,
- weight gain at women,
- increase in size and imbalances in the liver, that must work more for clean the toxic substances from body,
- weight loss (at men),
- heightened sensitivity of the kidneys,
- at pregnant women, American researchers at the University of California at San Francisco found that pesticides increased the gene activity associated with abnormal weight babies at birth,
- increasing infant mortality rate,
- colic, nausea, vomiting and diarrhea,
- produce sensory disturbances and sensitivity, neuritis, seizures, paralysis and mental disorders,
- determine hepatic manifestations - kidney, heart rate and respiratory disorders, skin changes and changes in blood,

- biochemical enzymatic and metabolic disorders,
- triggering the launch of overweight and obesity, which favors the onset of hypertension, diabetes and cardiovascular disease.

Experts in the field say the genes susceptible to toxic residues plays a central role in reproduction and are found in steroid producing tissues.

### **Conclusions**

The price and appearance do not evidence the quality of a product; most often the visually perfect products hiding defects of quality.

In general, extra-season products contain substances that favor the growth of them.

A balanced diet and sport helps people to maintain their healthy.

Romanians consumers use considerable amounts of flour and potato products.

Fruit consumption is based mainly on apples and plums, but after analyzes carried by MADR to detect the produce with high contents of pesticides, the apples contain the highest amounts of pesticides.

The consumption of own agricultural production can be a solution when try to reducing the risk of pesticide-containing products, but if the householder applies pesticides in his small farm, and these are not applied in adequate quantities can have negative effects with a higher degree than if they buy those products from a farm unit who applies pesticides in controlled quantities.

### **Acknowledgements**

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## **NEED OF A NEW SOCIAL AND ECONOMIC PACT – HORIZON EUROPE 2020**

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### **Abstract**

*The current period is characterized by three concurring phenomena and which influence mutually one another: globalization, digitalization and computerization at of all sectors of economic and social life. The balance between economy and society, mediated by institutions and institutional settings needs to be reconfigured based on the new realities. The paradigm change on the labour market is, in fact, one of the expressions of the structural changes of the economy. A new social and economic pact is necessary in view of achieving the employment objectives of the Europe 2020 Agenda.*

**Keywords:** employment, occupations, job polarisation, technological progress, social policy, economic growth

**JEL Classification:** J24, J64, O15, O35, P46, Z13

### **1. Introduction**

The current period is characterized by three concurring phenomena which mutually influence one another: globalization, digitalization and computerization at global level and on a wide scale of all sectors of economic and social life, as well as by the economic and social change as implicit outcome of the first two phenomena. On this background, the outbreak of the financial and economic crisis and its globally propagated effects are, in fact, the outcome of three successive crises: financial, economic and the one of “sovereign debts”, which lead to the austerity measures taken predominantly in the “old” cohesion and convergence member-states (Greece, Spain, Portugal, Ireland, etc.), but especially in the Central and East-European countries, respectively the new cohesion and convergence member-states.

In the present paper we intend to analyse the need and opportunity of a new social pact, correlated more firmly with the policies on the labour

market. This necessity results from the changes occurred on the labour market during the crisis, and one of the major effects of these changes is the structural unemployment which continues to have two digit percentages at European level. In this context, the new cohorts of youths are increasingly severely affected on entering/or failing to enter the labour market, including the unequal and uncertain risks related to increased competitiveness between the potential employees for the existing jobs. Thus, there are major contradictions between several categories of youths at European level, but also at the national one: first, the competition between the “over-skilled” ones (sometimes refused precisely for this reason by some the employers) and those with skills that no longer match the demand on the labour market; the competition between youths benefitting of family support for undergoing successful career path and those from economically disadvantaged families and who, often, end by being included into the categories polarised around occupations and trades with low level incomes; the competition between youths belonging to the autochthonous population and those with an immigrant background; the competition between youths opting to extend their period of studies (often due to lacking of better and tempting offers on the labour market) and those who benefit to a certain extent from on the job training and, implicitly, of other opportunities in building up a career, etc.

To these is added also the worrying increase in the numbers of youths regarded as NEET who are, briefly defined, on one hand the outcome of the perceived lack of perspective and, on the other hand the expression of a new form of economy which, in the absence of solutions in the real world took refuge in the ‘virtual’ world. Many of these youths, even if according to the current statistical indicators cannot be found either in the educational systems, or in the vocational training ones, nor in the labour market, can be found active in income generating activities (sometimes perhaps even undeclared incomes!) in the virtual world facilitated by the increase in the possibilities of making use of computers and of putting to good use the opportunities of ensuring some incomes (very often minimal ones) by using the internet capabilities.

Obviously, there is here an entire debate about the grey economy, about possible fiscal evasion, but also an entire potential of alternative economic development in the future, yet this is not the topic of the present paper.

Next to the youths, the entire labour force as a whole is in a permanent competition for the available jobs which impose, more and more frequently, permanent efforts from the labour force of training, improvement, knowledge-and skill-updating, including even reskilling. In this context, a decisive factor is the attitude of the states and of the



employers with respect to improvement, training and knowledge updating policies, and even with respect to the ones regarding lifelong learning. The way in which these policies are financed, encouraged and supported either by employment agencies (public or private), and also by the employers can be decisive for the future of the labour force, considering the technological progress and the swift qualitative leap in the field of industries, services, agriculture, etc. triggered by the intensive computerisation of more and more sectors and activities.

The digitalised and computerised economy and society is already a fact, and the period of the crisis and the one of post-crisis both do nothing but reaffirm Keynes's statement from 1933 according to which the rate of technological development and the natural tendency of the industries to economise and increase cost-efficiency by diminishing labour intensive activities is the one which at a given moment shall be in advance against the opportunities of creating new jobs<sup>1</sup>.

## **2. Romania Labour market in the European Union and implications at institutional level for Romania**

In Europe, the period of crisis occurred during a period of intense changes triggered on one hand by the expansion towards Central and Eastern Europe, and on the other hand by the new competitiveness condition created by the globalisation process.

The first phenomenon, respectively globalisation brought along essential paradigmatic changes that are determinant for the way in which they shall be approached and solved both for the economy and for the society. These changes represented, first of all, a change in the perspective about the main institutions: the institutions with direct impact on the labour market. Moreover, they have shown that from macro- and microeconomic perspective institutions play an important role in the positive or negative development of the economies and societies, due to the following components of change: diminishing or increasing the "transaction costs" which are directly or indirectly related to the efficiency and effectiveness of institutions, their stability being the one ensuring the predictability of the business environment, the developments at national level on short-, medium- and long-term, and their capacity to adjust to changes in other fields is the one ensuring the sustainability of the models proposed in view of reaching the general economic and social development objectives at European, national and regional level.

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<sup>1</sup> J.M. Keynes, (1933). *Economic possibilities for our grandchildren* (1930). *Essays in persuasion*, pp. 358–73.

During the crisis period, it could be easily seen that the most affected institutions were the ones impacting directly the labour market. These institutions are a true “value chain” with effects on the main policies pursued at European level, respectively the policies aimed at cohesion and convergence.

The issue regarding the importance of institutions in general, and of labour market institutions is increasingly more often approached in the literature dedicated to social sciences in the last decades, starting from an apparently simple fact: the years eighty and the exit from the economic crisis of the respective years were the trigger of an essential change of the perspective already outlined during the nineties and which became a fact in the years 2000: the shift from the concept of “job security” to “employment security”.

The implementation, on an extended scale of this paradigmatic change, without taking into account the capacity of the systems to adjust “on the go” to this change is among the reasons for which nowadays the unemployment and social exclusion risk is particularly high, as compared to other economic development period, considered from a historical viewpoint.

Even though often used one instead of the other, the two phrases are not synonymous, the first referring, in our opinion, more to the capacity of the individual to develop the same productive activity, that would provide for decent living conditions, for the same employer for longer periods of time, thus benefitting from health and pension insurances required at the end of the active life, while the second represents the possibility/ability of the individual to develop various productive activities according to the professional or vocational training based on the gained competences and skills, so as to be able to value and enhance them during the entire active life, and not necessarily for the same employer and/or in the same activity, in a competitive market environment.

This is the context in which also the ‘interface’ between the economic and social model preceding the years 2000 and the economic and social model after the years 2000 can be found, including here the quality of these models as perceived both by the economic and social environment. Thus, the period preceding the years 2000 was defined by concepts of socio-economic security, empowerment, inclusion and cohesion, while the period after the defined objectives of the Lisbon Agenda 2000 were rendered concrete under the concepts and policies related to wages, social insurance benefits, the educational and skills’ vocational training and improvement, employment and competitiveness.

According to the social policies, three factors are subsumed to social quality and they remained unchanged proving once again the

technologically determined difference between the labour market and the social requirements.

**Table 1 Three Factors and the 12 Dimensions of Social Quality**

CONDITIONAL FACTORS	CONSTITUTIONAL FACTORS	NORMATIVE FACTORS
socio-economic security social cohesion social inclusion social empowerment	personal security social recognition social responsiveness personal capacity	social justice (equity) solidarity democratic based citizenship human dignity

Source: Peter Herrmann, *A Positive Approach Towards Social Policy – The Re-Foundation of Social Policy*, 2007, p.5

The analysis of the period of crisis showed that even though the conditional factors were relatively more often approached and dealt with in the specialised studies and literature, yet the ‘balance’ between them has not been found in the much changed context due to the intense automation and digitalisation/computerisation degree, to the permanently increasing competitiveness not only at global level, but also between the EU-28 member-states as result of the progress and as requirement for retaking economic growth after the period of the crisis.

Thus, a first finding would be that also the requirement of ensuring “employability” must be reconsidered in view of the rapid automation due to which many of the jobs created before the crisis vanished, without chances of being re-created, or of new ones to be created instead. Eloquent in this regard is the fact that from the enterprises that after 2008 made personnel layoffs, many took this decision of rendering their activity more efficient based on the implementation of automated processes.<sup>1</sup>

Thus, an obvious imbalance emerges between the demands of the industrial, goods, and services’ markets that pursue to render efficient their processes, which translate more and more frequently in automation and using robots that can reproduce repetitive activities, the labour market, and the “market for social services and quality social protection delivery”.

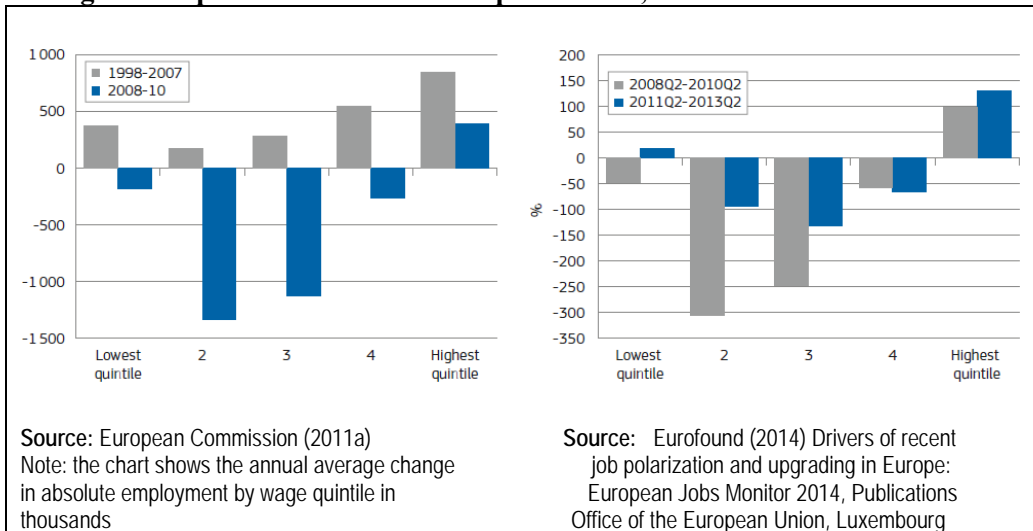
One of the visible and direct outcomes is the polarisation of the jobs, an articulate signal about the importance of ensuring an institutional framework that would provide not only for increased flexibility (by avoiding useless segmentation) of the labour market, but also for some new opportunities for the human capital, for its endowment with the required

<sup>1</sup> McKinsey Global Institute (MGI):44% from the companies that cut-back on their personnel from the beginning of the crisis in 2008 have done so due to the implementation of automation in their activities.(MGI, 2011)

opportunities to face the new challenges triggered by the gradual strengthening of the new knowledge-economy and society. Secondly, the current stage is indicative as well for the evolutions in the immediate future that will determine the success or failure in reaching the employment target from the perspective of the Europe 2020 Agenda, that is a 75% participation rate to labour market for both men and women aged between 20 and 64 years of age.

In setting this overall target, we can already detect a ‘weakness’ as the principle of “one size fits all” has already been contradicted by the outcomes of the previous programming period, according to the Lisbon Agenda 2000. Moreover, it would be necessary to lay increased emphasis on the national and regional policies of the member-states in the field of employment, education and social protection so as to encourage each member-state to take the steps deemed as necessary and possible according to their financial and economic situation in order on one hand to encourage employment, development of SMEs and the attraction of direct foreign investments and, on the other hand to proceed on the way of institutional reforms, but much rather institutional changes that would create a better environment (including based on formal and informal institutional cooperation) for developing a more collaborative and actively mutually supporting environment between education – enterprises – research-development and innovation as the ‘backbone’ of sustainable economic and social development.

**Fig. 1 Jobs polarisation in the European Union, 1998-2010 and 2008-2012**



**Source:** Employment and social situation in Europe – Report 2014, p. 32

The explanations with respect to this relevance is found in the following developments: technological progress triggered the emergence of an increasingly higher difference and which left behind (already) a more marked median segment which is not covered with respect to the activities in the economy. Practically, this means that increasingly important turn to be the activities and occupations of cognitive nature that also provide for higher earnings and incomes, while the number of routine occupations which ensure average earnings and incomes is shrinking, while low-income occupations tend to multiply at the other end. Moreover, a certain trend was noticed for former average income occupations to regroup more often currently around the low-income occupations' segment.

Among the factors that contributed decisively to changing the image and future of occupations both before and, in particular, after the crisis are counted:

- the change in the content tasks of the occupations;
- re-evaluation and repositioning of occupations depending on their probability of being externalised;
- the increased role of services for enterprises and of personal services that proved to be most dynamic even during the crisis period, as they are at the same time indicative for and closely linked to the structural change of the economy.

These factors mentioned above are those that draw attention to the necessity of a new social pact at European level that would represent, at the same time, for the new cohesion and convergence member-states of EU-28 an opportunity of defining their own institutions that have impact at the same time on the labour market but also on the social component by considering past (success/failure) experiences, so as to ensure already from this development stage a coherent platform for the future sustainable economic growth and sustainable development.

At the same time, the quality of the institutional changes and the main topics for Romania in the new context are defining for the following state and the performances of the country in reaching the objectives of the Agenda Europe 2020.

The quality of institutional changes can be appreciated from the viewpoint of the main indicators of the developments on labour market, in particular from the perspective of the active labour market policies.

The main institutional changes required from the perspective of the labour market and employment are: ensuring increased interaction between the economic policies aimed at the labour force and the social policies; ensuring better flexibility of the institutional framework for the labour market so as to meet swifter the demands generated by the business environment; strengthening the interactive institutional framework for the

main systems and sectors with impact on the labour market: education, research-development and innovation, health, etc.; assuring a coherent institutional framework for the interaction between the national and regional levels for better coordinating national, regional and local initiatives aimed to combat unemployment and to increase the employment rate for the active population. At European level there are already well-established practices in this respect, as well as a certain “interface” between formal and informal institutional aspects. Making use of good practices and successful examples adjusted to the Romanian setting could contribute, by involving all relevant and interested stakeholders, in outlining a country concept for improvement both conditions on the labour market and in the social field.

Unfortunately, in Romania the issues of the institutional framework are generated by the centralised and planned past which created a significant rigidity on the labour market, but also with respect to the institutions in the field of education, health and social services, etc. Thus, in Romania’s case, as in comparable instances of the old cohesion and convergence member states are noticed some features that determine the ‘quality’ of the interaction between formal and informal institutions, and that had as outcome both positive and negative effects on the labour market.

For instance, an example that implies also a wider debate about reform and institutional change, as the first is frequently associated also with a political regime change, while the second could be regarded rather as a possibility of harmonious, historical evolution of adjusting to changes perceived and received from the external environment and which, as any other integrated system impacts on the other systems, is the situation of the educational and vocational training system from Romania.

Immediately after the fall of the communist regime the problem was posed about a consistent reform of the educational system, yet the institutional reforms in the field of education continued to remain but reforms without finality and which did not succeed in transiting towards a superior state of adjustments and fine-tuning, respectively institutional changes that would meet the demands on labour market and not only. This fact generated on one hand confusion and instability in the system, that gave distress signals to the external environment, and on the other hand decreased in this way the interest of the other stakeholders from outside the system to cooperate with the educational and vocational training system. Moreover, the performances in the field of education and of professional/vocational training began to decrease, so that many teenagers and students opted to migrate for studying and finishing their studies abroad, registering – as they often made the decision to remain in the host-country – also considerable losses for the future human resource. In addition, this ‘turmoil’ did not allow for properly monitoring the requirements on the labour market on short-

medium- and long-term, nor for evaluating the perspective for occupations, that is whether they have a future or not, and the successes, such as those in the ITC field and in the occupations in this field, remain just punctual and not consistent examples.

### **3. Conclusions**

The present paper intended to be a brief enumeration of why the structural change of the economy does not provide for a sound basis with respect to retaking economic growth if not accompanied by a new type of social pact that includes in a more integrated and measurable fashion both economic and social considerations with respect to the policies developed in the respective fields. While old member-states have solid institutions and institutional settings that need adjustments according to the shifting paradigms in the field of labour market and in the one of social policies, the former and current cohesion and convergence member-states are faced with the double challenge of meeting on one hand the demands of the changing economy and society, and of creating/generating/reforming and changing institutions in accordance with this new economic and social stage of development which includes unprecedented challenges given the widespread automation and digitalisation/computerisation of all sectors of economic and social life. The finding that technological progresses and leaps impact heavily on the human capital and the development of the human resource, must be the tenor for developing new social policies attuned to the new economic realities, while at the same time the economic policies should consider not only the short- and medium-term efficiency and efficacy, but also the possible means for encouraging sustainable development by providing new means and instruments for creating more, better, 'green' and innovative jobs for the still active and future active population.

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## **FORECASTING SEASONAL TIME SERIES WITH CALOT MODEL**

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### **Abstract**

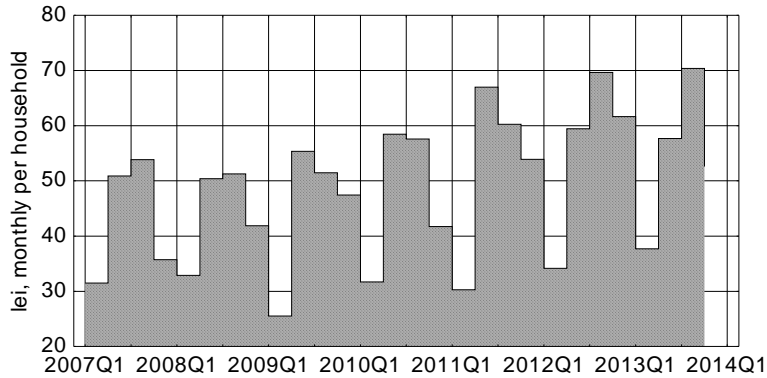
*Activities with a variation trend depending on the change of seasons are frequent in agriculture. For such phenomena it is not enough just to analyze the annual change trend, the cyclical fluctuations which occur from one quarter to another or from one month to another must also be taken into account. In this context, the present paper proposes that by using statistical and econometric techniques to reveal regularities in the evolution of the agricultural monthly average income per household, the extrapolation of the investigated variable being based on it.*

**Keywords** *Calot model; autocorrelation function; income from agriculture; seasonal time series; forecasting*

### **INTRODUCTION**

The agricultural income, in real terms, was of RON 49.01 monthly average per household in the period 2007Q1-2013Q4, providing 2.93 percent of the total income, of which the income from sales of agro-food products, animals and poultry accounted for 2.11 percent, and the income from the agricultural works for 0.82 percent. The highest income in agriculture, monthly average per household, were made by the households of farmers (RON 316.88) and the lowest, by the households of employees (RON 11.59), the report between them being 27: 1. Their share in the total income of the households of farmers was 23.9 percent versus 0.52 percent in the households of employees. The agricultural income of rural households were 11.8 times higher than those of urban households and represented 7.18 percent of the total income of rural households and 0.46 percent of the urban households. The analysis of the average level of the agricultural income per deciles in 2013 shows a gap of 5.3: 1 between the

the average income per household in the first decile and the average income per household in the last decile.



Source: Own calculation based on the data from the statistical publication “Population Income and Consumption” National Institute of Statistics (2007 - 2013) the data are comparable, being expressed in the average prices of 2005  
 Figure 1 The quarterly evolution of the agricultural income between 2007 and 2013

The absolute amplitude of the variation, calculated for the monthly average agricultural income of a household in the period 2007Q1-2013Q4 (AIH), amounted to RON 44.88. The coefficient of variation (25.91 percent) reflects the absence of heterogeneity, the calculated mean being representative of the investigated series. The analysed distribution is slightly asymmetrical (Skewness = - 0.19). The flattening coefficient indicates a platykurtic distribution (Kurtosis =1.99)

Table 1. Descriptive indicators

Series: AIH	
Sample: 2007Q1 2013Q4	
Observations: 28	
Mean	49.01393
Median	51.37000
Maximum	70.39000
Minimum	25.51000
Std. Dev.	12.69817
Skewness	-0.193226
Kurtosis	1.993830
Jarque-Bera	1.355343
Probability	0.507798

In order to verify whether the considered data series was affected by seasonality, we determined the autocorrelation function and partial autocorrelation function with the help of Statistica software – the ARIMA model.

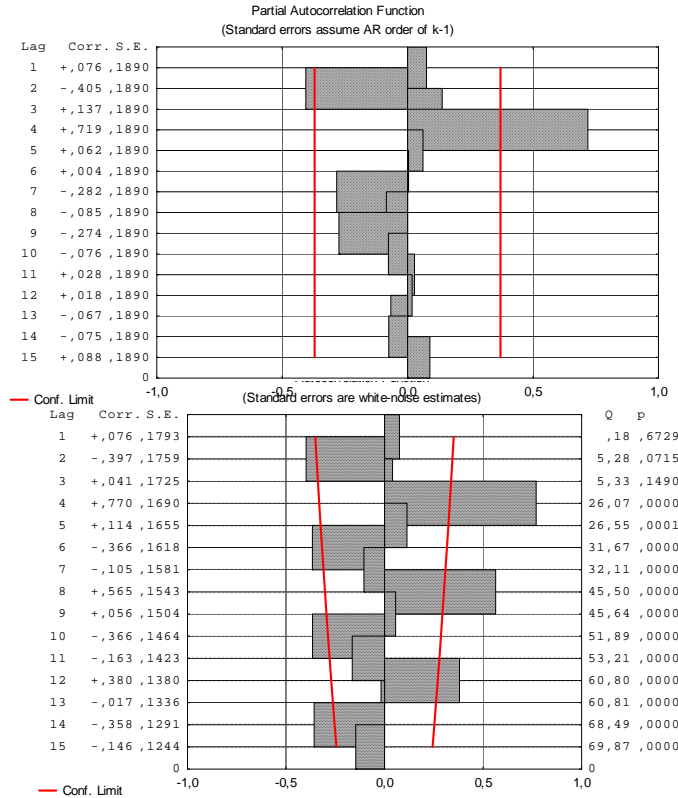


Figure 2. The Corel gram for AIH

The results obtained provide information on the non-stationarity of the analysed series and confirm the presence of seasonality.

**THE ECONOMETRIC MODEL**

A statistical model of simultaneous approach of the trend and seasonality was developed by the French professor Gerard Calot. This model can be applied if the time series meets the following conditions: the general trend is linear; the seasonality is stationary; the disturbance follows a normal distribution.

Starting from the linear form:

$$y_t = a_0 + a_1 t + u_t$$

seasonality is introduced into the model by dividing parameter  $a_0$  in elements that refer to the origin ordinate of the trend (A) and  $s_j$  constants,  $j=1, \overline{m}$ ,  $m$  being the number of periods in one cycle.

$$y_t = A + a_1 t + s_j + u_t$$

Writing:  $a_j = A + s_j$ , is obtained:

$$y_t = a_j + a_1 t + u_t$$

Knowing that:  $\sum_{j=1}^m a_j = \sum_{j=1}^m (A + s_j) = mA$  and  $\sum_{j=1}^m s_j = 0$  (principle of "minimizing the areas"), result:

$$A = \frac{1}{m} \sum_{j=1}^m a_j; \quad s_j = a_j - A = a_j - \frac{1}{m} \sum_{j=1}^m a_j$$

Since the variable "t" is an aggregate that allows running time per decades, months, quarters, semesters and years can be symbolized by  $j+im$  (where  $j=1, 2, \dots, m$  sub-annual periods;  $i=0, 1, 2, \dots, (n-1)$  years).

$$y_{j+im} = a_j + a_1(j+im) + u_{j+im}$$

By using the method of least squares we estimate parameters  $a_j$ ,  $a_1$  on which we will determine the coefficients of seasonality,  $s_j$ , and the amount of term A, their calculation formulas are the following:

$$\hat{a}_1 = \frac{1}{n(n^2 - 1)} \sum_{i=0}^{n-1} i(\bar{y}_i - \bar{y});$$

$$\hat{A} = \bar{y} - \frac{nm+1}{2} \hat{a}_1;$$

$$\hat{s}_j = \bar{y}_j - \bar{y} - \left(j - \frac{m+1}{2}\right) \hat{a}_1,$$

where:

$\bar{y}_i$  - the sub-period average (quarter, month) in the year  $i$ ;

$\bar{y}$  - the sub-period average based on all the data;

$\bar{y}_j$  - the average of sub-period  $j$  regardless of the year.

**ASSESSMENTS OF THE RESULTS PROVIDED BY THE ECONOMETRIC MODEL**

After applying the Calot model for the data series on the monthly averages of the agricultural income per household, in the period 2007Q1 – 2013Q4, the aggregate of the systematic components (trend + seasonality) results as follows:

$$\hat{y}_{j+ih} = 46.124 + 0.199(j + ih) + \hat{s}_j$$

Quarter	I	II	III	IV
Seasonal deviations	-16.743	8.112	10.093	-1.462

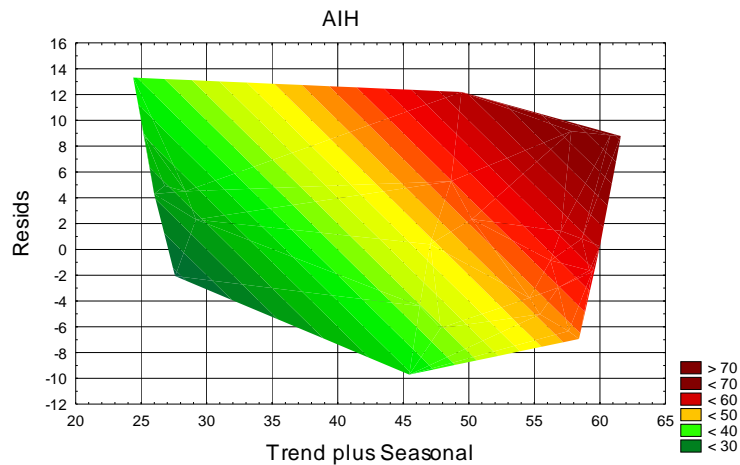


Figure 3. Components of time series data

Seasonal deviations in the first and fourth quarter were negative (under the trend line). The following contributed to this evolution: the decrease in the domestic supply in the animal product segment due to their high maintenance costs; the lack of adequate storage space for cereals, vegetables and fruits; the increasing trend in the demand for inferior products in times of economic downturn; the high competition of imports in the segment of agricultural products; the restrictions imposed by the EU accession. Seasonal deviations in the second and third quarters were positive (above trend line). The income from sales of agro-food products, animals and poultry contributed to the formation of the agricultural income of households by 68.07 percent.

The conjectural influences were also induced by: the difficult climatic conditions (2007, 2010, 2012), the very good results obtained in the

vegetable production (2008, 2013), the massive reduction of bird flocks after outbreaks of highly pathogenic avian influenza virus type H5N1 (December 2007), the A type influenza virus specific to farmed pigs (2009), the increase in the volume of purchases of agricultural products from the commercial network made by the population, the increase of the number of slaughtered animals due to the high costs of fodder, the deterioration of the international financial climate (since the second half of 2007).

The model likelihood was checked up by using the variance analysis. The model is statistically valid, as long as the theoretical value for a significance level  $\alpha = 0.05$  and 1, respectively 26 degrees of freedom, taken over from Fisher Snedecor distribution table is lower than the calculated F test value ( $F_{\alpha, k, T-k-1} = 4.22 < F_{\text{calc}} = 116.82$ ). The correlation ratio is quite close to 1:  $R = 0.87$ . The econometric model explains 75.69 percent of the total variance of the analysed phenomenon. For the first and second quarter of the year 2014, the point estimates of the expected levels for the investigated indicator are:  $\hat{y}_{2014Q1} = 23.6$  lei and  $\hat{y}_{2014Q2} = 60.21$  lei, respectively while the confidence intervals calculated for  $\alpha = 0.05$  significance level are: [9.5929; 37.6121], [46.1038; 74.3233].

## CONCLUSIONS

The subsistence economy, characteristic of the agricultural household, is evidenced by the low share of cash agricultural income, which represented, in the period 2007-2013, only 2.93 percent of the total income. The seasonal factor deflected the monthly averages of agricultural income per household in the first and fourth quarters by RON 16.743 and RON 1.462 below the trend line, and in the second and third quarters by RON 8.112, respectively RON 10.093 over the trend line. The degree of exposure of the national economy to climate variations or natural disasters affecting agricultural production is much higher than in developed countries. According to Vasile, Grabara (2014), supporting the development and putting into practice the agricultural strategies and policies at regional level accelerates the integration and strengthens the political dialogue with the regional organizations in the domain of agriculture, food safety and nutrition. Toderoiu (2013) mentioned that Romania's agri-food sector is in the process of restructuring and settlement of its structures on market principles. The purpose of the structural reform should be reflected in the increased competitiveness of the agri-food sector as a whole and in each of its components. In order to achieve the economic performance objectives it is necessary to evaluate the path travelled and outline the future development directions.

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## **GENERAL NOTIONS OF ACCOUNTING BALANCE AND RECOVERY**

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### **Abstract:**

*The phenomenon of modern accounting presents characteristics focused on the need for a balanced accountancy, also composing general objectives of this discipline, objectives that can be achieved only through its action to recovery.*

*These characteristics of the accountancy process on a world wide level shall not be regarded and performed in a separate or singular way but as a unitary whole that links mutual coordination and interconditioning bonds.*

**Keywords:** recovery, balancing, accounting phenomenon.

### **General notions of accounting balance and recovery**

In the actual economic and social context, touched by powerful contradictions generated by the world economic crisis which affected all activity domains, this paper aims to offer a dual approach – from a fiscal and accounting point of view – of the result of this practice, as an effect of the conciliation between fiscality and accountancy. Known is the fact that the dimension of the accounting result is strongly influenced by the accounting politics adopted within the decisional process of the management, as well as the manner that these methods are understood and applied by the accountant, generally an employer of the entity. In this respect, without analyzing the motivations that led to a certain practice instead of another, this paper tries, based on the research results to realize through the effect of the aspects that a certain influence on the accounting result can also be influenced by the manner the fiscal result is determined.

This is also justified by the relationship between the accounting result adjusted with the fiscal charge and the fiscal result that determines exactly the amount of the fiscal charge. Therefore, based on these results it can be said that, in the presentations of the fiscal information of the entities that become part of the application of tax regulation, both accounting and fiscal result can contain impairments generated by the objectives pursued by

the management of the entities, often carried up to a level of irregularities, not complying the regulations, with serious and multiple consequences.

### **1. The notion of accounting balance and recovery**

The main phenomena that govern the process of the accountancy reform on a global level are:

- recovery;
- balance;

These two actions act both individually as well as into an interconditioning relationship.

**The accountancy recovery** is the process that harmonizes the presentation of the accountancy terminology, methods and financial situations.

**The accountancy balance** is the process which improves the accountancy norms and regulations prior to be compared.

The accounting recovery implies creating the accountancy norms and regulations, rules that are improved to offer a common denominator regarding the way of action and appliance in order to achieve the compatibility and interpretation of the content of the accounting information.

After having these conditions accomplished they need to be applied on a global scale through the internationalization of these rules and accountancy norms.

The main reason for these phenomena is represented by the amplification of the globalization process and the financialization of the international stock market and national economies, which tend to form into the future a unique mechanism regarding the development of global economy. Some specialists, A. Razin and E. Sadka, said that the last two decades have witnessed a tendency of economic growth.

Misleading barriers of independent economic systems – local, national and others similar – had tremendous implications over the economic politics of each of these economic systems.

The companies, funds and workforce can now move freely along regions, states and countries, being able to exploit the differences between the existent opportunities, (the employment, economies, investments, etc.) in technological and economical environment, as well as the fiscal and monetary patterns.

For example, funds can move towards areas where a higher profit can be obtained at low labor force costs.

This statement has a certain relativity degree, because the economic efficiency is not only limited by quantitative factors but very important are the quality factors. The process of accounting normalization is structured in two main branches:

- The national accounting recovery;
- The international accounting recovery;

Through the notion of international accounting recovery we must realize the difference between the accounting recovery accomplished by international accounting organisms, which do not belong through culture and influences to a certain nation and the regional accounting recovery which from a cultural and influential point of view it integrates a mix of such elements.

Bringing to a common denominator the elements presented by the three accounting recovery categories is achieved through the process of accountancy harmonization, notion that unlike accounting recovery can not be divided through the perspective of the national – regional – international connection.

The fundamental purpose of the accounting standardization is to create an accounting reference frame that targets three aspects:

1. obtaining unitary information about the activity of the government companies by the state authorities;
2. presenting useful information to the financial statement users, especially in terms of comparison in time and space both between enterprises as well as into the relationship with former or future exercises;
3. efficient administration of the financial resources at the level of a country.

Nowadays the most important international organism that targets the achievement of this complex process is the IASB (International Accounting Standards Board), an organism mainly specialized to draw up rules for stock market and multinational companies. This organism is considered a promoter of the international accounting normalization, but as well as any other neutral organism, it was not exempt from criticism and allocation of contradictory elements corresponding to the undertaken actions, mainly referring to:

1. accounting balance and recovery actions achieved by E.U.
2. imposing Anglo-Saxon accounting rules in the countries where the accounts have a continental character.

Passing over these critical issues that are influenced especially by geopolitical factors, the international accounting balance realized by this accountancy organism represents a necessity imposed by the demands of the users of financial statements.

The necessity of this process is presented by the following factors:

1. Globalization phenomena, globalization of economies and capital markets, which determines the character of international accounting rules;
2. Creating various regional centers, by extending the EU borders which has as a consequence the rise of international circulation process of capital;
3. Diversifying globally competitive methods;
4. Designing a uniform accounting system and generally able to determine the effective operation of the business;
5. Creating an optimal convergence between internal and external system in terms of financial information.

These phenomena taken particularly and as well as interdependencies that are created between them, lead to the marketing elements of accounting, i.e. accounting information market.

The main side through which is presenting this type of market is the legal one and its objectives are classified according to the preferred granted to certain categories of users, namely investors and third parties, in the sense:

1. Development of financial and accounting information published;
2. Increasing the degree of intelligibility of accounting information;
3. Increasing the comparison power of accounting information in time and space.

Achieving these objectives has its result in the process of creating accounting regulations, able to provide useful financial information to its users in order to help them decide. This process generated over time two trends:

1. the conceptual or deductive trend in which the concepts and accounting principles are determined using a professional argument, these being found in methods and procedures applied in practice;
2. the pragmatic or objective trend in which the development of concepts and principles are based on experiences and traditions.

These trends were the base for creating two big global accounting systems, more precisely:

- the continental accounting system (the conceptual trend) and the Anglo-Saxon accounting system (the pragmatic trend).

## **2. Recovery and balance accounting objectives**

Balance accounting recovery objectives are determined by economic, social and geopolitical problems that are present at national, regional and global levels. The main objectives taken into consideration consist in the settlement of the following aspects:

1. Creating a uniform terminology into the scope of the accountancy;
2. Developing generally accepted accounting principles;
3. Defining the content of the information presented in the financial statements;
4. Accomplishing schemes and patterns of presentation of financial statements;
5. Drawing up the accounts plan and the monograph for main financial economic operations.

The accounting regulations elaborated through this process shall be first acknowledged from a social point of view in order to successfully use them in practice.

An important factor in this meaning is represented by the national cultures, because each state sees differently the character and content of both accounting norms as well as the information provided by those.

The application of these accounting rules, even identical in terms of content and manner of presenting the accountancy information, determined the appraisal of the following accounting recovery:

1. Legal or regulatory recoveries of the products of this process are applied in practice by the national law of each State;
2. Professional recovery which are applied in practice by the accounting professionals, and thereby to other users.

According to C. Perochon "objective accounting normalization can be shown by: the financial statements or the accounting plan".

Making this process through financial statements refer to the following levels:

- the component of financial statements,
- items shown in the financial statements sheets,
- recognition and assessment of elements of the financial statements,
- the content of elements within the financial statements sheets,
- Regulations, accounting standards and procedures related to the preparation and presentation of financial statements.

This type of recovery is appropriate to the Anglo-Saxon countries.

Recovery through general accounting plan is specific to the continental European countries and includes:

- the annual financial statements (form and format),
- general chart of accounts( account system used),
- Organizing the accounting documents and registration procedures, validation and control of financial and economic operations.

Depending on the ratio of public or private contribution in process of developing the regulations, accounting recovery may be:

1. **politically accounting recovery**, where predominant is the state intervention, mainly encountered in France and Germany;
2. **pragmatically accounting recovery**, where predominant is the contribution of the accountancy profession, mainly found in UK;
3. **mixed accounting recovery**, where the regulations are developed by the accounting profession and are imposed through government's intervention, the most relevant example being USA, where the accountancy norms are elaborated by FASB and their implementation is achieved by the SEC.

A particular form of mixed accounting recovery is highlighted by the Dutch accounting system, where the accountancy norms and regulations are imposed by a threefold action, these being the result of a compromise between worker's union, employers' associations and the views of the accountancy profession.

From here it can be deduced that this process has been and still is a historical conflict between the two sides that want to achieve the recovery accountancy, so they can obtain the information they need through the issued regulations, these depending on the purpose of each category.

In Romania, the legal accounting appliance is presented through the following elements:

1. The accountancy law no.82/1991 amended and republished by GO no.61 / 2002
2. Methodological norms and state regulatory accounting details;
3. Methodological notes with a status of professional book of reference;
4. Framework for preparation and presentation of financial statements prepared by the IASB and national accounting normalization taken by the institution;
5. The network of International Accounting Standards developed by the IASB;
6. The chart of general accounts;
7. The law of financial audit.

The accounting international standards elaborated by IASB have been applied into the national accounting system through assimilation and for the aspects that this does not cover, the Romanian lawmakers created complementary rules and regulations. The process of assimilation of these international accounting regulations it was mainly done through the following enactments

- OMFP nr. 94/2001
- OMFP nr. 306/2002
- OMFP nr. 1752/2005
- OMFP nr. 3055/2009

### 3. Systems that influence the recovery and accounting balance

The recovery and accounting balancing is influenced by a number of factors, reflected both in the external environment of business activity, internal, and mixed factors, targeting a complex of external and internal action.

In the category of external factors we mention: political and economic factors, legal, cultural and social factors.

In the category of internal factors are present factors that influence the financing of business activity. Mixed factors aim at regulating the relationship between accounting and taxation a ratio that is highlighted by the conflict between these two rules in terms of conceptual fair presentation of the financial statements and in terms of trends of the company to reduce taxable meal and in this way is produced the impaired quality of information presented in the financial statements.

Political and economic factors have determined primarily the creation of two types of economic systems and thus their own accounting systems. These systems are:

1. the liberal system and
2. centralized system or the totalitarian system.

*The liberal system* is specific to the western European countries, North America, Japan and Australia, in where the public power governs from an accounting point of view the activity of companies, but they do not play a decisive role in terms of managing those. Within these systems the financial informations are useful primarily to the investors to help them determine the ability of the company to gain future income.

Accounting is designed to communicate information that shows profitability of businesses.

For these reasons, the financial statements must provide the real image of the financial position and performance of the company.

*The centralized system* mainly covers former communist countries that are found in a late transition process, situation that applies to Romania too. Until 1990 the main user of accounting information was the state, in the case of Romania, the accountancy system was monist.

Request of accounting information did not come from groups of users, which made the accounting information supplied to be on technical nature, the main objective was the complete and correct economic record of financial operations.

The events of the 90s led to significant changes in those political and economic systems and thus into the accounting systems.

These countries have gradually adopted the European directives and international accounting standards.

Legal factors are present in both systems of law dominating worldwide: the German Roman law system and common law system.

The German-Roman system or continental is characterized through the legal rules are written.

In this type of law system, accounting regulations aim at imposing specific accountancy rules and the accounting culture influences the flexibility and adaptability of the national accounting rules.

Such accounting dimensions vary from country to country, even within countries belonging to the same legal system, for example: „in Germany accounting standards depend on the legal form and the enterprise size, while in France the accountancy rules depend only on the legal status of the enterprise”

In Romania accountancy rules are opposable to all types of businesses, but differentiated by their size, for example:

- enterprises that apply the Accounting Regulations compliant with European directives approved by Order nr.3055 / 2009;

The common law is the culture of Anglo-Saxon countries, where the accounting system is characterized by a minimum of accounting regulations and through an act of self achieved by normalizing the of the accountancy profession.

The Accounting Regulations are the resultant of various events that occur at certain times and that needs to be protected by law, such as the appearance of corporate capital in England during 1844 lead to the development of the Trade Companies Law.

In US the accounting regulation is mixed, especially in the early nineteenth century. The company law was first defined in each federal state.

After the accounting system in 1929 acquired a more cautious tone by the enactment of two specific laws in the 1933 and 1934 as well as through creation of the Commission Securities which were aimed supervision of listed companies.

Through a deep analysis of the two systems of law are seen that the continental system presents a lower degree of flexibility from the one presented by countries with common law.

In the case of civil law countries the legislation is richer, and in the case customary law countries the law does not enounce only some prescriptions, the accounting profession is called to solve applicative aspects.

Cultural aspects influence the manner in which the rules are adjusted and flexible.

These differences are present both into the accounting systems of countries from various cultures but also to those belonging to the same accountancy system from a traditional point of view.



A significant example is the differences between the British accounting system and the American system, which although they have the same culture the accounting the conception, implementation and content of accounting rules is different.

Differentiation is present both in terms of content accounting rules, as well as their manner of presentation in the financial statements. Social factors influence the accounting recovery in terms of their validation, so that the differences are obvious from state to state.

This differentiation is influenced by the fact that international organizations of accounting recovery do not have coercive power in the application of their national accounting systems.

Financing business activity influences both the activities of businesses and the way in which the information in the financial statements is presented.

Main financing mechanisms are in close conjunction with the two accounting systems dominating in the world:

1. Funding through bank loans (debt);
2. *Funding via its own capital* (self-financing).

Financing activities influences the production and presentation of financial information:

3. in the case of self financing is aimed the achievement of obtaining the necessary information for investment decision, while in the case of debts, the financial information useful to the external users are more or less complex.

The funding requires a more succinct financial information, unlike self financing in which the stock market companies require complete financial information meant to reflect the real situation of the company.

On its turn the financing of the company's activity is influenced by the law systems as it follows:

The countries of written law have a higher tendency towards bank funding while into the countries where the law is based on tradition and previous experience the funding tendency is inclined towards the stock market.

Through this tendency the companies focused on stock market funding have a more evolved accounting system, characterized through objectivity and transparency, the financial information having a higher degree of credibility.

The financial statements of these accounting systems are usually as a public report that is presented to the public.

Fiscalization represents a mean governed by the public power which determines and collects taxed from individuals and companies, leading to budgetary income accomplishing meant to finance the budgetary expenses.

The degree of increase taxation in an economy is influenced by the level of financing of budgetary expenditure.

The higher the public expenses are the fiscality shall present higher values. Starting from this point on, the fiscality is usually higher into the countries where the inflationary phenomenon is considerable.

This happens because in each economy the transactions develop based on the principle of the monetary nominalism, according to which settlement of transactions will be done at the value from the document. So if the values of inflation are growing from a financial year to another then the value of budgetary expenditure will also grow and this requires collecting higher budgetary income necessary to cover the public resources.

Raising this necessary also determines an increment of the tax collected from individuals and companies. Based on these considerations companies will permanently look to deliberately reduce taxable table operations in order to pay a smaller tax fee.

The information presented into the financial statement sheets is directly affected. According to Bernard Colasse „, the French accountant is preoccupied to protect himself from a legal point of view rather than to offer a real image of the companies through the financial statement sheets he develops. But doctrine is evolving and it may be that in future we are moving towards an interpretation more economical and less judicial of this new concept”

In this respect on a global level have been made numerous efforts which attempted the disconnection of tax accountancy burden, lately these efforts have had favorable results in most accounting systems, especially those that joined the international accounting standards.

### **Conclusions on the recovery and balance accounting in Romania**

A significant development in national accounting period was dominated by the concept of standardization of accounting which meant the process of drafting norms, instructions and clarification of accounting organization, based on some base rules and accounting plans regarding developments, emphasizing and cost accounting developed by the Ministry of Finance for the main sectors of national economy.

Lately the accounting reform imposed a series of new critical coordinates of the national accountancy systems operated into the market economies developed such as:

1. The primacy of application in practice of the accounting concepts, especially in terms of objectives and generally accepted accounting principles in relation to accounting rules and regulations which primarily refers to the rules, the basic methods and procedures of detailed accounting;
2. dualism primacy in relation to monism accounting hose essence is that in market economy conditions, at least some of the accounting

information, particularly those related to: the situation patrimonial, economic and financial results, relationships with third parties entity must made be public through the financial statements;

3. the primacy of the financial statements of current accounts across the system, in which optical data processing accounting system had to be changed fundamentally.

Within the monist accounting systems have been operated and still is operated with flow accounting focused on exhaustive record into the economic business cycle accounts: output – distribution – movement – intake, focused on the primacy coverage of the production process, considered the value source.

In this case the role of the financial situations is sidelined because the intervention of managers based on financial accounting analysis is strongly limited by the centralized economic system itself. Dualist accounting systems adapted to the demands of developed economies of competitive market operates with accountancy of results in which into the spotlight shall be the financial statement sheets, in their capacity as tools to inform third parties.

Using current accounts is subordinated to the objectives of accountancy: true and fair image of the patrimony, establishing the results and the real financial economic situation of the company, the control of internal conditions of production.

4. Fundamental reconsideration of the importance of various characteristics of accounting information.

According to these coordinates the monist accounting systems overbids completeness and comparability of accounting information, which created the possibility of centralized control features of activity.

The dualistic accounting systems overbids characteristics relating to efficiency and effectiveness of accounting information production, as it follows:

- Relevance of information (their utility in decision making),
- Fidelity of information (in the extent as they convey the reality),
- Relative importance (producing accounting information at a lower cost to the advantages they procure for their usefulness).

5. Fundamental reconsideration of priorities given to the different functions of accountancy.

In monistic accounting theories are listed and described a number of functions:

- exhaustive recording function of the activity of a company with the purpose to achieve the control of the activity.
- the verification, control and probative force in justice.

In dualist accounting systems, the accountancy functions are structured as it follows:

The general financial functions of accountancy:

1. Recording function of a business transaction in order to determine the periodic financial position, performance and financial position changed;
2. The function of economic and financial information to third parties;
3. The function of verification and test instrument generated by legal and tax reasons;
4. Function of providing information necessary to achieve macroeconomic summaries;
5. The function of meeting the information requirements of multiple users of accounting information.

Accounting management functions:

1. Function of determining the costs on production and sectors;
2. The function of determining the profitability on products, works and services;
3. Function to manufacture and supply the information required to prepare budgets of income and expenses, updating management indicators that form the enterprise dashboard.
4. Fundamental reconsideration of the principles of evaluation of the assets and management in relation to the ratio evolution of the demand-supply.
5. Fundamental reconsideration of accountancy normalization in the sense of openness to international.

Accounting policies and practices were and are influenced by economic policies and practices.

The accounting reform in Romania is focused on the following values:

1. recourse to generally accepted accounting principles and conventions, according to OMFP nr.94/2001, repealed with OMFP nr.1752/2005, repealed on it's turn with OMFP nr.3055/2009: business continuity, consistency, prudence, independent exercises, Separate assessment of the assets and liabilities, the opening balance sheet intangibility, cancelation, economic prevails the juridical form, relative importance.
2. Recourse to accounting categorical dualism between the financial accounting and management;
3. Recourse to the relevant account and relevance information regarding the financial position, performance and changes in financial position of the company in the financial statements.

The accounting reform in Romania started in 1991 with the advent of the Accounting Law no.82 / 1991 that targeted and aimed at improving the Romanian accounting system based on principles and rules laid down by the European Directives and IAS, so that the financial statements produced by firms to meet the requirements of the widest categories of users.

A general periodization of the evolution of the reformatory system is the following:

- 1.Period 1990-1994 characterized by the formation of national bodies empowered to start national accounting reform and through a process of determination of national accounting norms in collaboration with French experts, during which it was drafted Accounting Law no.82 / 1991, with effect from 1 January 1994, at which time started to apply the new national accounting system;
- 2.The period from 1994-1999 characterized through the action of the Accounting Law and the Implementing Regulation of this one. Aside these accounting regulations, the accounting system functioned through assimilation of a specific law material, elaborated by the Ministry of Finance.
- 3.The period 1999-2001 marks the step in which was developed the National Balancing accounting legislation with EU Accounting Directives and IAS fixes may assimilation, approved by Order no.403 / 1999 by the Ministry of Finance,
- 4.The period 2001 – up to now marks another stage into the national accounting reforms, in which new enactments have been elaborated realizing a deepening process of this one, principally through OMFP no.94 / 2001 OMPF 306/2002 OMPF no.1752 / 2005 and OMFP 3055/2009. Also this process is continued today by continuously aligning the Romanian accounting to European and international accounting rules.

#### **ACKNOWLEDGMENT**

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## **THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SUSTAINABLE DEVELOPMENT (SD)**

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### **Abstract**

*The attention toward social and environmental impacts of companies on stakeholders is not new. In the past years, the interest as regard the companies' impact on stakeholders increased due to pressing global problems like climate change and poverty. Companies are regarded as important players given their activities and global influence where they confront a range of issues, stakeholders, in both home and host countries as well. Companies' potential in being not a part of the problem, but rather a solution where other institutions fail, is increasingly acknowledged and has attracted the researchers interest in the field of corporate social responsibility (CSR) activities and sustainable development (SD). The relation between CSR and SD has been studied just a little and their inclusion in the literature as two concepts as part of the same model has been lacking. This paper studies both concepts, respectively CSR and SD, and proposes a theoretical framework for developing countries as further research in this area.*

**Keywords:** *Corporate social responsibility, Developing countries, Community, Sustainable development*

**JEL:** G3, O 57, Q01

### **Introduction**

There are currently lots of problems in the world such as poverty, climate change, human rights violation and many diseases. In order to construct or to develop a sustainable society, we need companies in the world to be socially responsible corporates. Many companies are either willing or called upon in playing a positive role as regard social problems, thus to contribute to sustainable development (SD). Given the business

impacts and the multinational enterprises activities as well as their global influence in their home and host countries on society, community and environment, a relevant question arises: Who is affected and who gain as a consequence of companies business decisions? According to Friedman (1970), companies only responsibility is toward them shareholders to make profits, thus to increase their wealth. Conversely, Freeman (1984) underline that companies purpose should regard the interests of all its stakeholders, to meet their requirements and to serve them. Nowadays, many companies are trying to get involved in the social needs of the communities where they operate as well as environmental protection.

The idea according to companies have responsibility not only to make profit, but also to help in solving some societal problems among which socials and environmental issues, is known under the name of Corporate Social Responsibility, CSR (Idemua, 2007). CSR is “beyond compliance” and approaching a social cause (Rodriguez et al., 2006); is not about “sacrificing profits in the social interest” (Reinhardt et al., 2008). CSR refers to companies’ business decisions makers to base their decisions not only to be “economically profitable, law abiding” but also to be “ethical and socially supportive” (Carroll, 1999: p. 286).

CSR concept is debated for years by practitioners as well as by researchers not only because of the lack of a clear accepted definition but also because of the disagreement as regard the regulations and mechanism of CSR implementation. The absence of international regulations on environmental and social issues has been proven by researches that, if CSR is wrongly implemented by companies, might lead to not viable use of scarce resources in an economy. Though, when CSR is implemented in the right way was found to be not only company leverage (Porter and Kramer, 2006) but also a tool for attaining SD especially in developing countries (Binder et al., 2007). Even if some business activities are regulated, does not generally apply everywhere. Rules and regulations are likely to differ from one country/region to another, as well as monitoring and compliance. Business environment has changed. CSR needs to be considered to be taken into account by the companies, as part of their challenges to globalization and institutions (Buckley and Ghauri, 2004; Dunning, 2006, 2009; Griffith et. al 2008; Peng et. al, 2009).

In order for CSR policies to attain SD, there must be collaboration between companies and civil societies where the firm operates. Thus, corporations’ responsibilities toward society need to be made not only through their contributions (philanthropy, charities, etc) but also to involve them (the society). This will lead to SD for societies and business as well.

Companies adopting CSR enhanced their financial performance, image, brand, reputation (Kolk & Pinkse, 2008; Verbeke, 2009). According

to Utting (2000), through CSR practices companies are “more responsive to the environmental and social concerns” of the society where they operate.

CSR and SD provide fertile areas which have not been discussed enough in the existing literature especially that the impact of corporations on SD is, somehow, unclear and need further investigation (Dunning & Fortanier, 2007; Meyer, 2004). SD and CSR have been studied very little as relevant concepts in the mainstream management journal as well as in business publications.

This paper aims at filling some gaps as regarding the relation between CSR and SD by providing a theoretical framework as a start for further research. Next session will present the literature review on CSR and SD. In section 3 is discussed the theoretical framework and the last section, respectively 4, presents the conclusions of the paper.

## **2. Literature Review**

### **2.1 Sustainable Development (SD)**

Brundtland (1987) defined SD as the “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” Thus, development regards not short but rather long term goals.

The idea of sustainability encompasses the concepts of economic, social and environmental sustainability. Therefore, economic and social development needs to be ensured while respecting the environment where the activities are conducted. The difficulty that arises is how to ensure a balance between economic, social and environment in achieving SD goals (Adams, 2001). The Millennium Development program is based on SD goals such as eradication of poverty and hunger from developing countries promotes equality between genders and establish environmental sustainability (UNDP, 2006; UN, 2007, 2008). Today, SD serve as support for communities as regard the efficient use of resources, create resourceful infrastructure, protect and improve life quality, protect the environment and build new businesses in order to strengthen countries’ economies.

Accordingly, SD pillars lie on the economic, cultural, social, and environmental sustainability. The SD pillars are hard to ensure in developing countries where there is a high percentage of grey/black economy unemployment rate is high, wages are low, and dropping school rate is high from primary. Visser (2008 a, b) underlined that differences from developed countries faced by the developing countries such as development of the infrastructure versus environment, *jobs creation versus high labor standards*, as well as strategic philanthropy versus political governance, make SD difficult to achieve. Thus, developing agencies (World Bank 2008; UNDP, 2006; UN, 2007, 2008) prioritize, as an important factor

that can help developing countries to achieve SD, CSR practices to be adopted by the company's. Companies adopting CSR need to respect human right and thus, working conditions would be improved as well as the basic services provision, and life condition would improve (Visser, 2008 a, b).

## 2.2 Corporate Social Responsibility (CSR)

European Commission (2001) defined CSR as *“a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”*. The wider meaning of CSR definition makes it difficult for companies to have a conventional/established policy on what should exactly be included in their CSR activities. For these reason, many companies have chosen as CSR activities what they 'feel' was right to be included under their CSR practices. International Finance Corporation (2008) define CSR as *“the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are good for business and for development”* (IFC, 2008). Another definition is given by Carroll (1999), according to *“the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time”*. Carroll's definition stress the fact that society expects businesses to be responsible all the time regardless of time and conditions changes, society expect companies improve their responsibilities toward them.

According to Broomhill (2007), CSR concept is *“highly contextual in terms of corporate and national environment”*. CSR is adopted by the companies on the voluntary basis.

Companies adopting CSR gain competitive advantage, increase customers locality, investors and employees, increase company brand and reputation, and enhance company performance. Milton Friedman (1970) argued that companies have only one duty and that is toward their shareholders to maximize them wealth. Continuing his point of view, the author underline that companies have only one responsibility, namely to make profit, and to engage in activities that increase profits, also to obey the rules and law. Company responsibility regards its employees and stakeholders which are directly involved in the business and not the environment or the community where it operates. Moreover, CSR diminishes company profits because its practices costs are supported by the company (Idemudia, 2007). These arguments support the view according to which companies should only invest their money in activities that bring profit to the company.

On a contrary, other theorists have different opinion as regard the CSR adoption by the companies. The Neo - Keynesians underlined the fact that sometimes companies operations can have a negative impact on the community where the economic activities are developed, and on the environment (Broomhill, 2007). According to Business for Social Responsibility (BSR) companies that achieve “commercial success in ways that honor ethical values and respect people, communities, and the natural environment” are truly responsible companies. These are CSR companies, where business decision makers do not harm or the negative impacts of their activities are reduced on community and environment. Many believe that CSR concept should not be voluntary but compulsory and that should be included in the national and international codes of conduct or businesses (Moir, 2001; Visser, 2008 a, b). Therefore, CSR is regarded as a set of policies, practices, and programs adopted and included in business strategy and decision-making processes of the company and are taken into account issues related to the business ethics, community investment, workplace, human rights, and environmental concerns.

Consequently, businesses have responsibility to the society where they operate to respond towards them concerns and not just the interest of their shareholders and to obey the law (Utting, 2005a).

There is a growing interest on CSR concept not only from researchers but also from companies to incorporate CSR into their business strategies (Porter and Kramer, 2006). Moreover, there is also a pressure from individuals, NGOs, and from the society at large on companies to become responsible but also the urge to get ‘something’ back from business operation in their communities. If in the past, companies adopted CSR voluntarily, in time many companies, especially multinational companies, considered and integrated CSR as part of their corporate activities and policies. These companies consider CSR as an important part that needs to be included into their business objectives. CSR concept is not new (Hopkins, 2005), is just not fully embraced and understood by everyone.

Currently, in developed countries, the debate on CSR is no longer whether it is important or not for corporations this concept, but the extent to which “CSR principles can influence corporate decisions and practices and how business can best address its social responsibilities” (Idemua, 2007).

### **3. Theoretical Framework**

Using CSR as one of the tools to ensure the achievement of SD is not enough if the policies formulation and their implementation do not involve the society, community and environment.

Governments play an important role, particularly in developing countries when addressing the citizens development needs, “the promotion of social

development issues must also be one of partnership between government and private and non-governmental actors and, in particular, the corporate sector” (Hopkins, 2005). In developing countries governments are frequently puzzling and inefficient. CSR practices in developing countries could be considered as an alternative tool to ensure the achievement of SD.

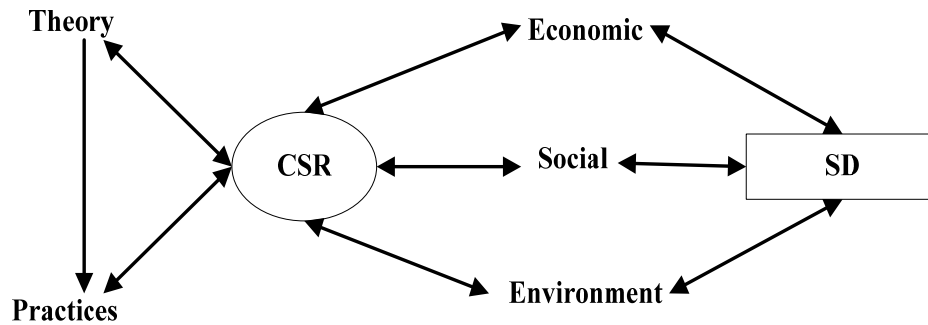
According to St. James Ethic Centre, “Corporate responsibility is achieved when businesses adapts all of its practices to ensure that it operates in ways that meet, or exceed, the ethical, legal, commercial and public expectations that society has of business”. Thus, incorporation of CSR policies into daily business operations is a must and not something that businesses choose to do at their convenient. Differently from what was promoted by the World Commission on Environment and Development, the SD concept does not encompass only the environment, but it also consist activities that care for the society needs and for the people living in it (WCED, 1987).

Dumitrescu and Simionescu (2014) stated that CSR practices are more frequently implemented as well as studied in developed countries, while the CSR practices and theory in developing countries are still debatable and need to be discussed at length. As underlined by Kemp (2001) there are various obstacles in achieving corporate responsibility, mainly in developing countries where the *institutions, standards and law system, are relatively weak*. Jamali and Mirshak, studies (2007) have emphasized that there are numerous CSR plans advanced in countries such as USA and UK as regard the CSR framework to be modified such that could fit developing countries context.

Considering all the above, in recent years the question raised is not if but how CSR should or can be efficiently implemented in developing countries (Ruggie 2008 a, b; 2010, 2011). The literature on CSR and the empirical evidence have revealed that a partnership between corporations and the community where they operate has been quite successful. Whereas, the lack of partnership alongside scarce consultations in regard the CSR policies implementation could have negative and unsustainable effects on the community. Thus, an efficient implementation of CSR is through a partnership between companies and the community as regard the later concerns. A successful company-community partnership has the potential of implementing and the guaranty of the project sustainability. Moreover, this partnership success gives the community a sense of ownership for the products done by the company.

Some of the factors influencing the corporate-community relationship are the link between theory and practice, epistemological, ontological (Bryman, 2004: 21) and the three pillars of the SD (see figure 1).

Figure1. **Diagram of factors considered to influence corporate-community relationship**



Source: made by author

A combination of these factors could have an impact on corporate-community relationship. One or few combinations of these factors may have the ability to determine the outcome of a research.

In Figure 1, practices refer to CSR activities transposed by the companies from theory. Practices regard the company-community relationship. Practices give the outcome of CSR activities which in turn are based on regulations, norms, conducts codes and ethics codes. Before conducting a study, researchers need to consider the theory impact. Between theory and conducted study, there is a strong association that needs to be considered. This theory should be confirmed in practice. Theoretical considerations could be deductive or inductive (Bryman, 2004). A deductive approach to theory refers to developing hypothesis which need to be empirically validated and eventually modify the theory which was subject to the hypothesis (Bryman 2004). Researchers using inductive approach conduct their study based on own observations having no hypothesis but at the end of research study, they formulate a theory based on research observations. Thus, theory is important when conducting a study and depending on what researcher has in mind will adopt an appropriate strategy. Research results will differ upon the approach used (Sein 2007) and on the variables from the study.

Another important factor that needs to be considered is epistemology. Epistemology concerns the knowledge generation or construction from the “*relationship between knower and what can be known*” (Ryen, 2008). It explains theories as regards the knowledge accumulation about the world (Ryen, 2008). The important questions raises by epistemology is whether social problems are possible to be handled using the same rough procedures

as in the natural sciences and if such procedures could fit the study of social phenomenon. In other words epistemology establishes what the valid knowledge is and how this can be usually obtained. Epistemology regards two main distinctive positions to be considered: Positivism (The Researcher as Scientist) and Interpretivism (research as detective). Positivism concerns natural science model, the aim- objective knowledge, test a theory, explains observable facts and as methodology uses questioners and surveys.

Interpretivism raises from a critique of usage the natural sciences as model for social research, the aim- subjective knowledge, build a theory and the methodology used are the interviews and analytical approaches. It is important therefore for the researcher to consider carefully the method intend to be used to generate information's required for the research.

The question raised by ontology is "*what reality is out there, what reality consists of and how is, I perceived and what there is to know about that reality*" (Ryen, 2008). The ontology regards two positions, respectively objectivism and constructionism. Objectivism "implies that social phenomena may confront us as external facts that are beyond our reach or influence" (Bryman, 2004). Constructionism is grounded on realism and points out those social phenomena that can be accomplished and handled by social actors (Bryman, 2004).

Using the combination of the factors discussed above may bring some light as regard the link between CSR and SD toward company-community relationship. The theoretical framework proposed in this paper if empirically validated may contribute to an advanced understanding of the relation between CSR and SD.

### **Conclusions and further research**

This paper aimed to provide a theoretical framework to fill in some gaps as regarding the relation between CSR and SD. This paper is a start for further research. The relation between CSR and SD has been study just a little and their inclusion in the literature as two concepts as part of the same model has been lacking. This paper studies both concepts and proposes a theoretical framework for developing countries as further research in this area.

Companies are regarded as important players because their activities and global influence in both home and host countries as well. For this reason companies' are started to be considered not a problem, but rather a solution where other institutions fail or government regulation are weak. The way companies act or activate in a society needs to be done with great responsibility in such way SD is ensured. The increased recognitions of two fields have attracted the researchers' interest, respectively in corporate social responsibility (CSR) activities and sustainable development (SD).



The combination of factors proposed in the theoretical framework may bring some light as regard the link between CSR and SD toward company-community relationship.

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## **UNEMPLOYMENT BENEFITS IN MEMBER STATES OF THE EUROPEAN UNION: A COMPARATIVE ANALYSIS**

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### ***Abstract***

*The paper comparatively analyse the provision of unemployment benefits within the 28 member states of the European Union (EU). Analyse is based on MISSOC comparative Tables Database. The paper brings empirical evidence on common trends and differences. National unemployment regulations are analysed as: chronological developments in relation with the accession to the EU, types of regulations, subjects approached, basic principles and field of application, main conditions, qualifying periods, waiting period, determining factors, ceiling, and duration of unemployment. Recommendations for further harmonisation in collecting unemployment related data are included. The article supports social policy adjustment towards achieving commonly established social targets.*

**Key words:** *social policy, unemployment benefits, European Union*

**JEL Classification:** Z180

### **1. Introduction**

The swift form the welfare to workfare emphasised the relevance of individual responsibility in assuring a decent standard for quality of life (Marginean, 1993, p. 439). Recent regulations adopted at the EU level (Lisbon Strategy, Europe 2020) underline the need to support employment at all ages. Unemployment was differently perceived during the time. For Beveridge it was the subject of policy interventions as employment was the main source of a decent life standard. Full employment was approached by Keynes as subject of economic policies while Titmuss considered an economic subject rather than a social one but undoubting it reflected a success of social policy especially towards promoting social inclusion

(Resiman, 2001, 58; Cace, 2004, 118; Zamfir, 2007, 240, 249, Aidukaite, 2014, p. 67). Unemployment during the communist time was not officially recognised in most East European countries except SI, HU and exploded in early transition period (European Commission, 2003,, 199-207, Vonica Răduti, S., 2006, p. 121, Stanculescu, 2009, p. 47, 55-56, Stanescu, 2013, p. 108-111, Vasile, 2011, Balan, 2015). The simplification of work and increased consumer demand accelerated the ways of controlling workers rather than the work efficiency (Zamfir, 1993, 378-379, Koch, 2006, 25-30).

The paper contributes to analyse the current state of affairs of the coexistence between employment policy measures in Western welfare state developed alongside post-communist social policy measures adopted early 1990s in order to face high unemployment rates. Further harmonisation of unemployment related measures is requested by current challenges of the labour market as well as common engagement towards achievement of Europe 2020 socio-economic goals (75% of the 20-64 year-olds to be employed by 2020 and at least 20 million fewer people in or at risk of poverty and social exclusion).

In line with the International Labour Organisation's definition, the unemployed person is defined by Eurostat as: someone aged 15 to 74 (in IT, ES, the UK, Iceland, Norway: 16 to 74 years); without work during the reference week; available to start work within the next two weeks (or has already found a job to start within the next three months); actively having sought employment at some time during the last four weeks<sup>1</sup>.

## **2. National regulations**

From the viewpoint of accession to the European Union (EU), three categories of countries were taken into consideration: six EU founders, nine other old member states, and 13 new member states from Central and Eastern Europe.

Unemployment updates date since '70s (AT); 80s (IT), '90s (BE, HU, UK, DE, SW, FI); and 2000: the first decade (RO, ES, CZ, PL, SK, IE, ET, LU, HR, LV, LT, PT), and the second decade (CY, BG, EE, SI, DK, FR)<sup>2</sup>. Within the first category, IT is the one preserving its regulations since the longest period of time. FR has the most recent unemployment regulations (2014).

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<sup>1</sup> <http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Unemployment>

<sup>2</sup> By chronological order and alphabetic in the case of the same year

**Table 1. Recent unemployment regulations within EU founder members**

No.	Country	EU	Latest updates
1.	France FR	1951	2014
2.	Germany DE	1951	1997
3.	Italy IT	1951	1988
4.	The Netherlands NL	1951	1986 <sup>1</sup>
5.	Belgium BE	1951	1991
6.	Luxembourg LU	1951	2006

Source: MISSOC data base

From the second category of EU member states, AT is following pre-accession unemployment regulations. The newest updates are from DK (2014).

**Table 2. Recent unemployment regulations within other old member states**

No.	Country	Latest updates	EU accession	Latest updates
1.	Denmark DK		1973	2014
2.	Ireland IE		1973	2005
3.	United Kingdom UK		1973	1995
4.	Greece EE		1981	2012
5.	Portugal PT		1986	2009
6.	Spain ES		1986	2003
7.	Austria AT	1977	1995	
8.	Finland FI		1995	1998
9.	Sweden SW		1995	1997

Source: MISSOC data base

Among countries which joined EU in the fifth (2004 and 2007) and sixth (2013) enlargement waves, HU, RO, and HR follow unemployment regulations adopted in pre-accession phase. The most recent ones are from BG (2012).

**Table 3. Recent unemployment regulations within Central and Eastern European member states**

No.	Country	Latest updates	EU accession	Latest updates
1.	Cyprus CY		2004	2010
2.	Czech Republic CZ		2004	2004

<sup>1</sup> [http://www.ilo.org/dyn/natlex/natlex4.detail?p\\_lang=en&p\\_isn=2872&p\\_country=NLD&p\\_count=2273&p\\_classification=15.04&p\\_classcount=64](http://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=en&p_isn=2872&p_country=NLD&p_count=2273&p_classification=15.04&p_classcount=64)

No.	Country	Latest updates	EU accession	Latest updates
3.	Estonia ET		2004	2006
4.	Hungary HU	1991	2004	
5.	Latvia LV		2004	2009
6.	Lithuania LT		2004	2009
7.	Malta MT	2003 <sup>1</sup>	2004	
8.	Poland PL		2004	2004
9.	Slovakia SK		2004	2004
10.	Slovenia SI		2004	2013
11.	Bulgaria BG		2007	2012
12.	Romania RO	2002	2007	
13.	Croatia HR	2008	2013	

Source: MISSOC data base

Regardless the category, four countries<sup>2</sup> (AT, HU, HR, RO) follows unemployment regulations adopted in pre-accession phase. Three countries (CZ, PL, and SK) change them in the year of EU accession. The rest of countries adopted latest unemployment regulations after becoming an EU member states<sup>3</sup>.

As applicatory statutory basis, budget related acts are frequent mentioned. Most probably these updates rather refer to yearly amounts of unemployment benefits than modifications (i.g. eligibility conditions). We recommend further consolidation of MISSOC data base with explanation about types of unemployment updates as well as years of latest updates (MT, NL are currently missing).

The most frequent types of unemployment regulations are acts (14 EU member states<sup>4</sup>) and laws (ten countries<sup>5</sup>). Other in-force pieces of regulations include: codes (BG, FR, DE, LU, and PT), decrees (four countries<sup>6</sup>), regulations (BG, CY); ordinance (BG); convention (FR), and decision (EE).

The most frequent subjects of domestic regulations are: unemployment (15 countries<sup>7</sup>), insurance (13 countries including eight

<sup>1</sup> [http://www.ilo.org/dyn/natlex/natlex4.detail?p\\_lang=en&p\\_isn=65354&p\\_country=MLT&p\\_count=323&p\\_classification=10&p\\_classcount=1](http://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=en&p_isn=65354&p_country=MLT&p_count=323&p_classification=10&p_classcount=1)

<sup>2</sup> AT 18 years before EU accession, HU 13 years, HR 7, and RO 5 years

<sup>3</sup> In acceding order: 2 years SE & ET; 3 years FI; 5 years BG, LV & LT; 6 years CY; 9 years SI; 17 years ES; 22 years UK; 23 years PT; 31 years EE; 32 years IE; 37 years IT; 40 years BE; 41 years DK; 46 years DE; 55 years LU; and 63 years FR.

<sup>4</sup> AT, HR, CZ, DK, ET, FI, HU, IE, MT, SI, ES, WE, NL, UK.

<sup>5</sup> BG, CY, EE, IT, LV, LT, PO, RO, SK, ES.

<sup>6</sup> EE, PT, BE - royal and ministerial, and ES – royal.

<sup>7</sup> AT, BE, BG, HR, DK, ET, FI, FR, DE, HU, LT, PT, RO, SW, NL.



referring to unemployment insurance<sup>1</sup> and five to social insurance<sup>2</sup>); and employment (11 countries<sup>3</sup>). Regulations in nine EU member states include social protection related issues: social security (MT, ES); security (FI, DE); social assistance (LT); assistance (FR); social affairs (SK); protection system (PT); and social welfare (IE). Other concepts are labour (seven countries<sup>4</sup>), benefit (seven countries<sup>5</sup>), financing (six countries)<sup>6</sup>, and unemployment beneficiaries (five countries<sup>7</sup>). Other concepts are: special support (AT); social insurance contribution (CY); state administration bodies (SK); and training services (MT).

### 3. Basic principles and field of application

The most frequent principles when providing unemployment benefits are compulsory social insurance scheme (24 countries<sup>8</sup>) and voluntary insurance (11 countries). The latest is applicable in DK (voluntary unemployment insurance scheme), SW (unemployment insurance scheme composed by a voluntary insurance and a basic insurance), in AT and ES (for self-employed), in BG (for sailors), in CY (for people working abroad in the service of Cypriot employers); in FR (under certain circumstances), in DE<sup>9</sup>, in LV, in SI, NL (under exceptional circumstances). Voluntary unemployment contribution is not possible in 11 EU member states: AT (except for self-employed); CZ, ET, EE, IE, IT, LT, MT, PL, PT, UK. Other principles in providing unemployment benefit are unemployment allowance scheme (LU), and social insurance scheme (FI) including two parts: basic unemployment insurance and optional earning-related allowance.

As field of application, unemployment benefits are generally available for all employees (25 EU member states<sup>10</sup>). In BG one should work for more than five working days or 40 hours per calendar month. As Bulgarian eligibility criteria for unemployment benefit include at least 9 months during the last 15, we recommend a further clarification between the two sets of MISSOC data. Beneficiaries should be insured with the Labour

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<sup>1</sup> HR, DK, ET, FR, DE, LV, RO, SW.

<sup>2</sup> BG, CY, LV, LT, SK.

<sup>3</sup> BG, HR (job placement), CZ, HU, IT, LT, MT, PL, RO, SK, ES.

<sup>4</sup> FR, LU, PT. PL (labour market institutions), ET (labour market services), IT & SI (labour market).

<sup>5</sup> Unemployment benefit (BG, DE, FI, ET, LV), social insurance benefit (CY), cash social assistance benefit (LT).

<sup>6</sup> Financing (FI); fiscal balance (SI); budget (BG); funds (SW); payment (LV); and income (IT).

<sup>7</sup> Jobseekers (DE, UK); employed workers (PT); poor residents (LT); and family (SK).

<sup>8</sup> AT, BE, BG, HR, CY, CZ, ET, FR, DE, EE, HU, IE, IT, LV, LT, MT, PO, PT, RO, SK, SI, ES, NL, UK.

<sup>9</sup> Carers who care for family members at least 14 hours per week, self-employed persons working at least 15 hours per week, persons employed outside the EU or associated countries..

<sup>10</sup> AT, BE, HR, CY, CZ, DK, ET, FI, FR, DE, HU, IT, IE, LV, LT, LU, MT, PO, PT, RO, SK, SI, ES, NL, UK.

Employment Office in EE. In SW, the persons should insure themselves, and fulfill the membership and working conditions.

Despite the fact that innovatory flexible types of employment are promoted, unemployment for self-employed is regulated in only nine EU member-states: AT, CZ, DK<sup>1</sup>, FI, HU, LU<sup>2</sup>, RO<sup>3</sup>, SI, and ES. The self-employed person in IE is not subject of unemployment insurance and no voluntary insurance is possible. Unemployment benefit for people working abroad is regulated in CY, LT, RO, and SI.

People enrolled in training programs including vocational rehabilitation are eligible for unemployment benefit (AT, BG<sup>4</sup>, DK, FI, DE, IT); as well as the ones conscripts/active in military services (BG; DK; LT); civil servants (BG, HR, RO); and members of cooperatives (BG, IT). Eligible for unemployment are persons holding a public office (e.g. members of Parliament) or a municipal office (DK), show-business employees (IT), young persons unemployed after their studies are entitled for unemployment (LU), persons insured with the social security system on the basis of non-agricultural economic activities can apply (PL). Other eligible categories in BG are employees in elective offices, judges, servants of the Bulgarian Orthodox Church and other registered religions having clerical rank; managers and authorized representatives of companies, sole traders and their branches, members of a board of directors, management executives and those in control of commercial companies. Unemployment beneficiaries in LT include: unemployed who have taken a childcare leave from the 1<sup>st</sup> until the 3<sup>rd</sup> birthday of the child; one of the parents (including adoptive parents) of a disabled person or a person appointed to be a guardian of the disabled person, providing permanent nursing at home. In SI categories eligible for unemployment benefits are: recipients of Unemployment Benefit, of Sickness Benefit, Paternity Benefit and Childcare Benefit after termination of employment, family assistant entitled to Partial Payments for Loss of Income and some other categories of persons, and persons whose employment contract is suspended (voluntary insurance).

Categories excluded from unemployment benefits are pensioners (SI), civil servants recruited before April 1995 (IE), and women who chose to be insured before April 1977 not to be insured are except from unemployment benefits (UK).

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<sup>1</sup> In DK: Self-employed persons and their assisting spouse.

<sup>2</sup> In LU self-employed persons who had to cease their activities and are in search of employed work.

<sup>3</sup> In RO: Self-employed, including their spouses contributing to the activity,

<sup>4</sup> Postgraduates receiving remuneration according to the agreement for medical specialty training and candidates for junior judge and junior prosecutor

#### 4. Main conditions

Frequent conditions to receive unemployment benefit are: registration to the labour office (24 EU member states<sup>1</sup>), capability of working (21 countries<sup>2</sup>), active searching for a job (17 countries<sup>3</sup>), age, residency, and how the labour contracted has ended. 17 countries (BE, HR, ET, FI, FR<sup>4</sup>, EE, IE, IT, LU, MT, PL, PT, RO, SK, ES, NL, UK) only cover involuntary unemployed. Seven countries (AT, BG, CY, DK, HU, LV, and LT) cover both voluntary and involuntary unemployment. We recommend that further MISSOC data base clarifications in this respect for countries mentioning just unemployment: CZ, DE, SI, and SW.

16 EU member states have age regulations related to unemployment:

- 15 years LV; HR (till 65 years), DE (till standard retirement age);
- 16 LT; LU (under 65 years); till retirement age ET, RO, ES, CY<sup>5</sup>,
- 17 years FI (till 64 years),
- 18 years PL (under 60 for women and 65 for men); BE, DK (till 65 years), IE (till 66 years); UK (under pensionable age).
- 20 years SW (bellow 65 years).

13 EU member states<sup>6</sup> mention residency as eligibility conditions. Polish claimers should have Polish, EU or EEA or Swiss citizenship. Other conditions are: availability for active measures taken by job office, no accumulation with other benefits (i.g. invalidity, early or old-age pension); eligible amount of part-time working periods, and no enrolment in education programme.

#### 5. Qualifying period

The qualifying period to access unemployment benefit includes the compulsory insured period and previous period within the compulsory insured period. Previous insurance period is defined: by compulsory years (SK, UK); months (12 countries<sup>7</sup>), weeks (eight countries<sup>8</sup>); days (seven

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<sup>1</sup> AT, BE, BG, CY, CZ, DK, ET, FI, DE, EE, HU, IE, IT, LU, MT, PL, PT, RO, SK, SI, ES, SW, NL, UK.

<sup>2</sup> AT, HR, CY, DK, ET, FI, FR, DE, EE, IE, IT, LV, MT, PL, PT, RO, SK, SI, SW, NL, UK.

<sup>3</sup> BE, BG, HR, DK, ET, FI, FR, DE, HU, IE, LV, PT, RO, SK, ES, NL, UK.

<sup>4</sup> Not to have left previous employment voluntary, without good cause

<sup>5</sup> 16-63 years or 65 for not entitled to an old-age pension

<sup>6</sup> BE, DK, ET, FI, FR, DE, IE, LU, PT, NL, RO (or domicile), SK (permanent or temporary), and UK (three months residence prior to the claim since January 2014).

<sup>7</sup> BG, HR, CZ, ET, FR, DE, IT, LV, LT, RO, SI, and SW.

<sup>8</sup> AT, CY, FI, IE, IT, LU, MT, and NL.

countries<sup>1</sup>) and by hours (DK, SW, and NL). Correlations are made in Sweden between months, weeks, and hours, in FI and NL between working weeks and hours, and in FR and IT between weeks and months.

Two years of previous contributions are regulated in SK and UK. Period measured in months varies between four (FR) to 18 (LT). Other regulations include: 6 months (SW); 9 months (BG, HR, LV, SI); and 12 months (CZ, ET, DE, IT, RO). The 26 weeks contribution is the most frequent in: AT (under 25 years), CY, FI, LU, and NL. The shortest period is 13 weeks (IT). At the opposite site are MT (50 weeks) and IE (104 weeks). As days, the most frequent period is 360 (HU, PT, ES). Other periods are 122 days (FR), 125 (EE), and 265 (PL). Unemployment period depends on age in BE: between 312 to 624 working days.

Other types of complementary unemployment support are provided: unemployment assistance (AT, FI, IE, PT, and ES). Three forms of unemployment assistance are in ES: allowance, active integration income, and professional requalification programme. Access to earning-related fund is provided under the condition of membership to an unemployment insurance fund (FI) including at least 12 months (DK, SW). Other unemployment forms of support are: (unemployment insurance benefit, unemployment allowance (ET); unemployment insurance and allowance of specific solidarity (FR); unemployment insurance and basic security benefit for jobseekers (DE); employment social allowance, mini ASpI, and mobility allowance (IT); contribution-based Jobseekers' Allowance and income-based Jobseekers' Allowance (UK). People with family responsibilities are supported within unemployment assistance (DE, LT, SI, and ES).

From the age of applicant perspective, different contributory period are settle in AT (under 25 years), BE, FR (50 and over); SI (younger than 30); ES (over 55 years eligible for unemployment allowance).

## **6. Provision of unemployment benefits**

No waiting period to receive unemployment benefit is regulated in 19 EU member states: AT, BE, BG, HR, CZ, DE, HU, LU, MT, PL, PT, RO, SI, NL, FR (unemployment assistance), IE (insurance immediately prior to claim), DK and LV (involuntary unemployment), ES (insurance and among assistance except the allowance). Unemployment waiting periods are measured by days: 3 (CY, IE, and UK); 5 (FI - working)<sup>2</sup>; 6 (EE); 7 (FR, SW), calendar (ET<sup>3</sup>, PL), 8 (IT, LT - calendar); and 30 (CY)<sup>1</sup>. For voluntary

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<sup>1</sup> BE, FR, EE, HU, PL, PT, and ES.

<sup>2</sup> During 8 consecutive weeks for insurance & labour market support. 90 days for the person resigned job without a valid reason or the employment was terminated through his/her fault

<sup>3</sup> For unemployment insurance benefit & unemployment allowance. 60 calendar days for daytime for full-time study at an educational institution

unemployment, the waiting weeks are three DK (voluntary unemployment, self-employment), four (AT), 12 (DE), and 21 (FI for people entering the labour market for the first time, except graduates of vocational training programs). The waiting period for voluntary unemployment and due to employee's misconduct is two months (LV) and six (MT).

Frequent determining factors when establishing the unemployment benefit are: employment history, previous earnings, previous contributions paid, flat-rate benefit and means-tested (unemployment assistance), and reasons for becoming unemployed persons, age, family situation (Esser, 2013, 10)

The amount of unemployment benefit is differently established. 19 countries take into account the average earnings for an established period of time. This can include three months (HR, CZ, DK, LU); 180 days (ES); eight months (SI); nine months (ET); one year (AT, FR, DE, HU, LV, PT, RO, SW); two years (IT, BG, SK); or 36 months (LT). Last salary earned is considered in BE, and NL. The unemployment benefit is not based on previous earnings in five countries: FI, IE, MT, PL, and UK. Insurable earnings of the previous year are calculated in CY.

Ceiling of unemployment benefit is regulated in AT, BE, BG, HR, CY, ET, FR, DE, IT, LV, SK, SW, ES (unemployment insurance). No ceiling is settled in FI (earning related unemployment allowance, self-employed persons), DK, PT, RO, and SI. We recommend further MISSOC clarifications for CZ, EE, HU, LT, LU, and NL.

As lengths of unemployment benefit, three categories are identified: no limit for eligible beneficiaries (three countries<sup>2</sup>); fixed duration regardless previous conditions (seven countries<sup>3</sup>), and different duration (20 countries<sup>4</sup>).

## 7. Final remarks

National regulations applicable to unemployment situation were updated after EU accession except for five countries (AT, HU, MT, RO, and HR). Three countries (CZ, PL, and SK) updated their regulations in the year of becoming EU member states. The most frequent types of domestic regulations are acts and laws covering common subjects such as unemployment, insurance, and employment.

The main basic principles when providing unemployment benefit are compulsory and voluntary social insurance. Just nine EU member states

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<sup>1</sup> For voluntary abroad contributors

<sup>2</sup> BE, FI (unemployment assistance), IE (unemployment assistance till 66 years).

<sup>3</sup> CY, MT (156 days), DK, LT (9 months), LU, NL (3 months), and UK (182 days).

<sup>4</sup> AT, BG, HR, CZ, ET, FI, FR, DE, EE, HU, IE, IT, LT, PL, PT, RO, SK, SI, ES, and SW.

regulates unemployment benefit for self-employed. Main conditions for unemployment benefit are: registration to the job office, capability of working, active search for a job, the end of labour contract, age, and residency. 17 EU member states provide unemployment benefit only for involuntary unemployment while other seven countries also cover voluntary one.

Qualifying periods are quantified by years, months, weeks, days, and hours. Further steps could be done towards better harmonisation. No waiting period for unemployment benefit is regulated in 19 countries. Employment history, previous earnings, and contributions paid are the most frequent determining factors for unemployment benefit. 19 EU member states use the average earnings for determined periods of time while five countries provide it regardless the previous earnings. Unemployment ceiling is regulated in 13 countries. Duration of unemployment benefit is established either as no limit for eligible ones, either as fixed limit taking into account previous employment history or regardless.

The article contributes to a better understanding of common points and differences among EU member states. Further harmonisation would support adjustment of domestic policies with impact on quality of life for EU citizens and achievement of Europe 2020 socio-economic goals.

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## **ECONOMIC AND LEGAL IMPLICATIONS OF THE FISCAL CODE**

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### **Summary**

*This article aims to analyze the legal regime of Codes, in general, and of the Fiscal and Fiscal Procedure Codes, in particular. There are presented the applicable constitutional norms, the principles resulting from those rules and, in relation to these, the shortcomings in the practice of lawmaking registered in Romania. These deficiencies are relating to the adoption of the codes, the way of implement them, the frequent modifications that are brought, and the terms of entry into force of the amending law.*

**Keywords:** codes, enactment, complex laws, modification, adoption, entry into force, legal consequences, legal regime.

### **I. Overview on codification**

Codification is the operation of systematizing the specific provisions of a branch of law in a legal act which is called **code** and which has as peculiarities, on the one hand, **generality** and **its degree of complexity**, and on the other hand, **its stability**<sup>1</sup>.

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<sup>1</sup> Ion Santai, Administrative Codification - requirement of the rule of law and of the European integration of Romania, in the Public Law Magazine, no. 1/2003, pp 58 -63;

The most relevant example of the embodiment in a code of both features is the Civil Code from 1804 of Napoleon Bonaparte, who later inspired other European codes, including the Romanian one from 1864<sup>1</sup>.

We can find provisions for codes even in the Romanian Constitution<sup>2</sup>, revised and republished in 2003, where the art. 75 paragraph (2) consecrates the 45 days as being the period within which the first Chamber seised must decide but, "*for codes and other extremely complex laws, the term is 60 days.*"

From the contents of this constitutional text we can find:

- a) on the one hand, the recognition of codes as a category of laws;
- b) on the other hand, the consecration of one of the codes' features : that they are "**extremely complex laws**". Such a conclusion is drawn from literary and grammatical interpretation, the conjunction "*and*" linking "*codes*" of "*other extremely complex laws,*" causing the conclusion that **the codes are placed in the category of extremely complex laws**<sup>3</sup>.

In technical and legal terms, the codes are also laws, involving **the law on adoption of codes**. Invoking the Law no. 287/2009 adopting the Civil Code<sup>4</sup>, the Law no. 53/2003 adopting the Labour Code<sup>5</sup> and the Law no. 571/2013 for the adoption of the Fiscal Code<sup>6</sup>.

There are situations when the codes are adopted by acts with similar force of law, respectively **Government Ordinances, simple or emergency ones**. Going through such a procedure, it was adopted the Fiscal Procedure Code by Government Ordinance no. 92/2003<sup>7</sup>.

Since this is a "*simple*" ordinance, the Government needed enabling in order to adopt the Fiscal Procedure Code, which was done by Law no.

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<sup>1</sup> The Civil Code was decreed on 26th of November 1864, promulgated on 4th of December 1864 and implemented on 1st of December 1865. In the Official Gazette no. 271 from 1964 were published the articles from 1-347 inclusively, and the articles from 348 to 1914 were published in the Official Gazette no. 7, 8, 9, 11 and 13 of 1865;

<sup>2</sup> The Romanian Constitution was published in the Official Gazette of Romania, Part I, no. 233 of 21st of November 1991. It was revised by Law no. 429/2003 published in the Official Gazette of Romania, Part I no. 758 of 29th of October 2003 and republished in the Official Gazette of Romania, Part I no. 767 of 31st of October 2003.

<sup>3</sup> Regarding a review of the Article 75 of the Constitution, see Ioan Vida, Ioan Muraru, Elena Simina Tanasescu (coordinators) - Romanian Constitution, Comment on articles, Publishing House CH Beck, 2008, pp. 712-716;

<sup>4</sup> Published in the Official Gazette, Part I no. 511 from 24th of July 2009

<sup>5</sup> Published in the Official Gazette, Part I no. 72 from 5th of February 2003

<sup>6</sup> Published in the Official Gazette, Part I no. 927 from 23rd of December 2003;

<sup>7</sup> Published in the Official Gazette, Part I no. 941 from 29th of December 2003;

559/2003<sup>1</sup> on empowering the Government to issue ordinances, which lists on the art. 1 pt. II.5 among the areas in which the government is entitled to regulate also the "*Fiscal Procedure Code*".

Some problems arose in practice regarding **the implementation of codes**, identifying two main situations:

- a) codes that have been implemented **by laws**, in which we find **the Civil Code** implemented by Law no. 71/2011<sup>2</sup>, **the Criminal Code** implemented by Law no. 187/2012<sup>3</sup>, **the Code of Civil Procedure** implemented by Law no. 76/2012<sup>4</sup>, **the Criminal Procedure Code** implemented by Law no. 255/2013<sup>5</sup>.
- b) **codes that have been implemented by Government Decisions**, such as **the Fiscal Code** implemented by the Government Decision no. 44/2004<sup>6</sup> and the Fiscal Procedure Code implemented by the Government Decision 1050/2004<sup>7</sup>.

Relating to the two techniques, the one that has legitimacy in terms of the procedures provided in the Constitution, is the second technique, referred to in art. 108 paragraph (2) of the Constitution<sup>8</sup>, because **the legal act that implements the laws is the Government Decision**.

Therefore, in our opinion, **the implementation of codes, which are themselves laws, other laws is a questionable procedure in terms of the constitutional text mentioned above**.

Returning to the two codes (fiscal and fiscal procedure), they regulate matters of fiscal law, substantial and procedural law, fiscal law itself being derived from the branch of public law in general, and from the administrative law in particular.

Adopting an administrative code and an administrative procedure one, is a goal that is often shout aloud, both politically and institutionally, but

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<sup>1</sup> Published in the Official Gazette, Part I no. 909 from 22nd of December 2003;

<sup>2</sup> Published in the Official Gazette, Part I no. 409 from 10th of June 2011;

<sup>3</sup> Published in the Official Gazette, Part I no. 757 from 12th of November 2012;

<sup>4</sup> Published in the Official Gazette, Part I no. 365 from 30th of May 2012;

<sup>5</sup> Published in the Official Gazette, Part I no. 515 from 14th of August 2013;

<sup>6</sup> Published in the Official Gazette, Part I, no. 112 from 6th of February 2004;

<sup>7</sup> Published in the Official Gazette, Part I, no. 651 from 20th of July 2004;

<sup>8</sup> Art. 108 of the Constitution has the following content: "(1) The Government shall adopt Decisions and Ordinances. (2) The Decisions shall be issued to organize the execution of laws. (3) The Ordinances shall be issued under a special enabling law, within the limits and under thereof. (4) The Decisions and ordinances adopted by the Government are signed by the Prime Minister, are countersigned by the Ministers who are bound to carry them into execution, and shall be published in the Official Gazette. Failure to publish entails the non-existence of the decision or the ordinance. The Decisions of a military character shall be conveyed only to the institutions concerned."

unfortunately has not yet materialized by adopting the two codes. And so it is that **the fiscal law, which is a sub-branch of the public law (administrative) benefits coding before the branch of law to which it belongs, itself, have been codified<sup>1</sup>.**

## II. Critical Considerations on the Fiscal Code and the Fiscal Procedure Code

The fact that both fiscal code and fiscal procedure code were adopted before existing an administrative code or administrative procedure code **is acceptable**, given that the fiscal law is an applied law both in the public economy and the private one, in equal measure, in the life of the state and individuals.

What is objectionable, in our opinion, are the following:

a). **the adoption procedure** and here we refer specifically to the Fiscal Procedure Code, which was adopted by simple Government Ordinance under legislative delegation under art. 115 para. (1), (3), (7) and (8) of the Constitution, in relation to art. 108 para. (1), (3) and (4) thereof.

The legislative delegation, as can be appreciated in the literature, is an atypical procedure for adoption of a law, that when is based on an law empowerment concerns, as a rule, the situation where Parliament is on vacation and there is a special situation that requires a certain emergency, which attracts the adoption of this type of ordinance.

Adopting a code, whatever the branch of law targets it and the nature of its rules, substantive or procedural law, is a very serious problem, that does not justify the adoption of a "simple" Government Ordinance and neither **the legislative delegation procedure**.

Ordinances shall be presented as a collaboration between **the legislative and the executive power**, borrowing features which individualize from each of them. They are **executive acts** under organic aspect and legislative acts from material point of view. In other words, they are acts belonging to an executive authority, but which relates to some matters that normally are of a legislative nature. From this distortion between the author and their content, the ordinances acquire a hybrid character, which affects the whole legal existence<sup>2</sup> of them.

Therefore, we consider that **the adoption of the Fiscal Procedure Code would have to go through the normal procedure as in other cases**. We refer in particular to the provisions of Law no. 571/2003 regarding the Fiscal Code, this because through the usual procedure of adoption, the

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<sup>1</sup> Verginia Vedinas, Administrative Law, Ninth Edition , Legal Publishing House, Bucharest, 2015, pp 78-81 .;

<sup>2</sup> Antonie Iorgovan, Dana Apostol Tofan, The Legislative Delegation in Romania, in RDP no. 1, p. 70 ff.

parliamentary committees have enough time to analyze and define the text's content, creating the premises for the law that is adopted, to be closer to the social relations content that governs them.

b). The second criticism aims the instability of the Fiscal Code and also of the Fiscal Procedure Code and the civil and criminal codes recently adopted, that have undergone, from the adoption date, countless changes. Thus, the Fiscal Code has undergone about 89, and the Fiscal Procedure Code, about 32 amendments and additions;

c). A third criticism concerns **the period** within the changes **take effect to the Fiscal Code and the Fiscal Procedure Code**, the two codes establish the provision that the entry into force of the amendments is **usually** made from next fiscal year, as required by art. 4 of the Fiscal Code, as amended and supplemented<sup>1</sup>, art. 3 of Fiscal Procedure Code, republished, as amended and supplemented<sup>2</sup>.

This wording **"generally" turned into exception, and the exception in rule**, the most of the amendments made to the Fiscal Code and the Fiscal Procedure Code, causing legal effects even during the fiscal year, which has led to a dangerous and disturbing practice on the subjects of law covered by them. We have in mind that a legal person predicts a budget of income and expenses during a fiscal year, and the changes during a fiscal year, undoubtedly affects the activity of the legal person.

### III. Other possible legal consequences of the Fiscal Code.

In addition to those already expressed, but in close connection therewith, the provisions of the Fiscal Code, in general, and the amendments that are made to it, in particular, produce economic, legal and even social consequences, depending of the concrete regulatory object.

The unexpected change of the Fiscal Code creates the situation of being adopted a law that does not allow the citizens to arrange their behavior so as to comply with that law, beyond his will to respect it. Example: changes to upwards of property taxes, on movable and immovable property, obviously disrupts a person's ability to comply with the new rules established in the sense of having the financial resources to enable this. As a legal person, the

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<sup>1</sup> Article no. 4 of the Fiscal Code has the following content: "(1) This Code shall be amended and supplemented only by law, promoted **usually** 6 months before the date of entry into force.

(2) Any amendment or addition to this Code shall take effect from the first day of the year following that in which was adopted by law. "

<sup>2</sup> Article no. 3 of Fiscal Procedure Code, republished, has the following content: "Amending and supplementing the Fiscal Procedure Code : (1) This Code shall be amended and supplemented only by law, promoted **usually** 6 months before the date of entry into force. (2) Any amendment or addition to this Code shall take effect from the first day of the year following that in which was adopted by law. "

physical person also conduct its own plans by planning the expenditure in relation to the income.

The Constitution, as the fundamental law of the State, contains rules to protect both the citizen and the property it owns, the property being guaranteed by art. 44 and 136 of the Constitution, in both its forms, public or private.

Ensuring ownership of the asset is reflected not only on the asset subject to it, but also on its holders, in the exercise of ownership right.

Secondly, the Fiscal Code **affects private initiative and investment in the private economy and the services sectors**, which may take equally both public and private form, as authorized by law.

The Constitution, through art. 45 guarantees "*the free access of persons to an economic activity, free enterprise, and their exercise under the law.*" This requires a legislative framework that should be characterized not only by **stability** but also by rules that encourage the exercise of these fundamental rules.

Another aspect, with legally and economically character equally, **aims the influence that the Fiscal Code has on the work of public authorities in general, and on local authorities**, in particular.

The Constitution places by the art. 120 para. (1) on the base of the organization and functioning of public administration in the administrative - territorial units, **the principles of local autonomy, decentralization and deconcentration of public services**. Based on these principles, the autonomous authorities draw up and run their own local budgets, through which they establish a settlement for the development of a locality and the lives of citizens for each year.

The permanent legislative mutations disrupt, equally, the citizen and also the work in local public administration. Depending on **national fiscal policy**, also the deliberative local authorities may have **a local fiscal policy** that contributes to the economic development in the area of administrative - territorial units, to the increase of the quality of life for citizens and the collection of taxes owed to local and county budgets. They are all interrelated to each other.

#### **IV. Conclusions.**

We aimed through this material to reveal some of the peculiarities that the encoding process make in fiscal matters, both in terms of substantive law and of the procedural one.

It is a positive aspect that was desired and achieved, since 2003, the codification in both aspects.

What we appreciate that is another **poor aspect** for the legal normativity system in Romania, is the way of legislating. These deficiencies concern all

levels and types of laws, but reveals pronounced aspects, even critical, in terms specific areas of legislating, such as:

- a). **exercising the right of legislative delegation by the Government**, characterized by **excess of emergency ordinances**;
- b). **the legislative instability phenomenon** as a whole, which take the form of **frequent changes in legislation**, made on the usual procedure or on atypical procedures (ordinances, assuming responsibility by the Government);
- c). **particular aspects of the legislative instability**, both in terms of frequent changes and derogations from the adoption procedure in the matter of the codes;

As we have already shown, a code is a law that must be characterized by stability, but the Romanian experience of the past 25 years has made them to customize, notably by **instability**, with negative consequences on the State's live and individuals life equally.

Therefore, we think that for the future it will have to pay attention to these issues and to understand that **legislative stability not only elevates one nation, but helps it to function in a balanced, consistent, seamless and fully interest of the state itself and of its citizens.**





## **PRELIMINARY ACCEPTANCE OF THE ENGAGEMENT ACTIVITIES**

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### **Abstract**

*In this paper, we tried to capture how auditors gather documents with sufficient probative value, particularly with regard to basic planning and procedural areas examined, showing: the extent of understanding and knowledge, risk sighted investigations made findings made judgments made, conclusions and decisions, in short "movie" that will accomplish the mission. Leaving aside the fact that underlying the evaluation by professional bodies to audit quality, work files must be prepared based on the idea that they can be used as evidence in any legal proceeding that may arise (referrals, complaints, evidence courts and others). Since a mission conducted by professional principles requires the establishment of documentation thick and complex, it is recommended that the professional to be selective and concise, but detailed enough to understand immediate control objectives, findings and conclusions reached, so that the files include only information relevant significance - updated official and complete. Preliminary engagement activities are quite different depending on the nature of the commitment or initial or recurrent slightly more difficult if the initial audit, which is why it requires individualization of specific elements.*

**Key words:** audit, documentation, samples, activities, preplanning

**JEL Clasification:** M40, M42

### **1. Peculiarities documentation for statutory audit**

Whatever type of audit that we conducted, auditors gather documents with sufficient probative value, particularly with regard to basic planning and procedural areas examined, showing: the extent of understanding and knowledge, risk sighted, investigations conducted findings made judgments made, conclusions and decisions, in short "movie" that will accomplish the mission.

The viewpoints encountered in the literature documenting audit is part of the mission which brings together and working materials prepared by the auditor during the conduct of the undertaking, as paper documents, records or other electronic media carriers of information.

After long experience, came to encapsulate that appropriate documentation (including that relating to assets) helps the auditor to improve efficiency and effectiveness in that:

- a) facilitating mission planning audit in accordance with auditing standards and subject to audit risks identified;
- b) provides a record of weaknesses, errors and irregularities detected during the mission, and the strengths of the reference entity;
- c) confirms and supports the rationale, conclusions and opinions issued;
- d) permit the engagement team as a whole and individually, to be responsible for his work;
- e) the source of information in preparing reports and / or answer questions about the entity verified;
- f) confirms compliance with standards and audits, internal procedures of the company specialized in such missions;
- g) support or provide evidence against claims, legal proceedings and other legal proceedings against the auditor;
- h) record and mostly include audit evidence resulting from work performed;
- i) facilitates review and quality assurance audit because:
  - Helps the reviewer to determine whether the conduct of the undertaking were met mission objectives to ensure that the activities delegated to other auditors and experts have been properly fulfilled, appreciate judgments issued by professionals throughout the process and identify areas where additional work would be required to obtain sufficient appropriate evidence;
  - Provides the basis for audit quality. Documents collected, particularly those developed by the auditor in a mission, are the underlying assessment of the independent evaluator of quality and compliance with International Standards on Auditing work;
- j) Maintain records of continuing value problems for future audits.

We emphasize again at this level, the conceptual difference between audit evidence and documents which, in our opinion, largely can overlap.

We believe that we are not wrong in saying that it is right that all stages of an audit to be carefully recorded documents systemized into folders. Documents or worksheets is the main way to record the auditor's work and the conclusions drawn about important issues, based on the auditor's judgment. Work files contain one or more folders or other storage media, in physical or electronic format, which records found composing audit documentation for a specific engagement.

Leaving aside the fact that underlying the evaluation by professional bodies to audit quality, work files must be prepared based on the idea that they can be used as evidence in any legal proceeding that may arise (referrals, complaints, evidence courts and others). Therefore, auditors should date and sign documents they place in these cases.

Regardless of their form and content, as specified by the International Auditing Standards, working papers are the property of the auditor. Although parts or extracts from documents can be made available to the entity audit-rului agreement, the auditor documents do not replace the records of the audited entity, but supporting them. In the US, there is a provision that financial auditor working files have surrendered to authorities when they require and therefore can be used as evidence in court against both the financial auditor and auditee against.

Regarding the presentation of the sheets and / or work files, literature meets their idea of standardization, which is not negligible. There is also suggestive rules in this regard, but in our opinion, the format may be influenced by many factors, including the nature of the engagement, customer profile and auditor's judgment are the reference.

Working papers are designed and organized to meet the circumstances and the auditor's needs for each individual audit. In our opinion, the use of standardized documents (checklists, specimen letters, standard organization of working papers, etc.) can improve the efficiency with which it is performed and review working papers. Thus, they facilitate the delegation of work while providing a means of controlling their quality. To improve audit efficiency, the auditor may utilize schedules, analyzes and other documentation prepared by the entity. In such situations, the auditor should be satisfied that those materials have been properly prepared.

Scope of documents is a matter of professional judgement because it is not possible to preset which should include working papers. However, when assessing the coverage of working papers, well-built file will be the one that is sufficiently complete and detailed, so as to allow another experienced auditor with no previous connection with that commitment, activity and can understand validity opinions. Documents (file) work must

have a number of qualities such as clarity, readability, relevance, accuracy, conciseness, correctness and completeness (unit).

Regardless of the material used (disk, CD, DVD, etc.) is necessary to ensure adequate identification that completely describes the origin and location content data files.

The form and content of working papers related assets are influenced by a number of factors such as: the objective of the audit, the audit report form, nature and complexity of the objects of the audited entity, the nature and peculiarities of the accounting and internal control of the audited entity and the audit methodology used, the factors leading to the following structure:

- Audit contract;
- Overall strategy, plan and audit programs;
- Various analyzes;
- Descriptions of the issues;
- Summaries of significant matters;
- Letters of confirmation and representation;
- Checklists;
- Correspondence performed, including electronically on significant issues etc.

The auditor may include abstracts or copies of records entity (eg, contracts and invoices to purchase of fixed assets and significant and specific agreements) as part of audit documentation. However, audit documentation is not a substitute for the entity's accounting records.

To improve the efficiency of the auditor may utilize schedules, analyzes and other information prepared by the client entity. In our view, it is preferable that the conditions of this cooperation to be included in the engagement letter or contract audit. However, in such situations, user information must be satisfied by alternative methods that those documents were properly prepared and credible.

Since a mission conducted by professional principles requires the establishment of documentation thick and complex, it is recommended that the professional to be selective and concise, but detailed enough to understand immediate control objectives, findings and conclusions reached, so that the files include only information relevant significance - updated official and complete. It is not necessary for the auditor to include in the audit documentation projects worksheets or replaced financial statements, notes that reflect only preliminary considerations taken in other documents or incomplete, previous copies of documents corrected for typographical or other errors.

The oral explanations of the auditor, independent, is not an adequate justification for the work performed and conclusions, but can be used to

explain or clarify information contained in the audit documentation. Also, it is neither necessary nor possible for the auditor to document every aspect examined or judgment filed in an audit. Moreover, it is not necessary for the auditor to document separately for compliance with aspects such as has been demonstrated by other documents implicitly included in the audit file.

An important factor in determining the content and extent of audit documentation of significant matters is the extent appropriate to exercise professional judgment in carrying out the work and the evaluation results. Documenting the professional judgments made, when they are significant help to explain actions and improve quality auditor conclusions. These issues are of particular interest to those responsible for reviewing audit documentation, including those carrying out subsequent audits when examining the continuing significance.

In our opinion, proper use of professional judgment proper paperwork requires inter alia:

- auditor's conclusions argument, where a provision provides that the professional "must consider" certain information or factors, and that consideration is significant in the context of that mission;
- basis for the auditor's conclusions about the reasonableness of areas where subjective judgments were applied (for example, the reasonableness of significant accounting estimates);
- basis for the auditor's conclusions about the authenticity of a document when performing additional investigations (such as proper use of the activity of an expert or of confirmation procedures) in response to circumstances identified during the mission, which had created the impression that the auditor document may not be authentic.

For ease of reference and understanding the contents of the working papers and, in particular, identifying and evaluating audit evidence supporting the conclusions, recommendations and reports, using the technique of double crosses in which each document mentions both the source from which it was obtained, as and its destination. Applying this technique requires an initial connection logic and clear of all working papers.

The practitioner may find useful preparation and preservation as part of the documentation several abstracts, called Memoranda of audit, which records, for example, discussions with specialized personnel and management, internal control system assessments, observing the situation of assets errors identified. The most important summary memorandum conducted by auditors is completed, describing major issues identified during the mission and how they were treated, or that include references to other relevant supporting documentation that provides such information. Such a summary may facilitate the conduct of examinations and inspections on effective and efficient audit documentation, particularly for large and

complex engagements. Moreover, the preparation of such a summary can contribute to how the auditor considers material respects. It also can help the professional to consider whether, in the context of the audit procedures performed and conclusions reached, there is an individual target relevant standards requested that the auditor is unable to perform, which would prevent the achievement of objectives.

The documentation is not limited to records prepared by the auditor but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed on by the auditor. The professional can discuss on significant issues and others, staff and external parties entity, such as those that provide professional counseling services to the entity.

In documenting the nature, timing and extent of audit procedures performed, the auditor should record the identifying characteristics of the specific items tested; the person who conducted the compliance check and completion date; person who reviewed the audit work performed and the date and extent of the review.

Registration identifying characteristics serves several purposes and enables the engagement team to be responsible for his work, and on the other hand, facilitates the investigation of exceptions and inconsistencies. Identification characteristics are influenced by the nature of audit procedures and tested element or aspect.

Professional requirement to document the name of the person who reviewed the audit work performed does not imply that each worksheet to include evidence of review. However, the record of audit work being reviewed, the person who performed the review and when it was revised remains a necessity.

The documentation of the audit of a smaller entity is generally less extensive than the one for the audit of a larger entity. Furthermore, if an audit engagement partner out the work of examination and assessment, the documentation will not include matters that should be referred only to inform or instruct members of the mission team or provide evidence of review by other members team. In other words, there will research issues within the team discussions or supervision issues.

In our opinion, the paperwork audit of a smaller entity, it can be useful and efficient for the auditor to record various aspects of mission together in a single document, referring to supporting working papers, where necessary. Examples of issues that can be recorded with include understanding the entity and its internal control, the overall audit strategy and audit plan, materiality determined, assessed risk, significant matters noted during the mission and the conclusions drawn.

## **2. Preliminary activities accepted auditing**

Preliminary engagement activities are quite different depending on the nature of the commitment or initial or recurrent slightly more difficult if the initial audit, which is why it requires individualization of specific elements.

Generally, the preamble current commitment, the auditor should perform the following activities:

A. to perform procedures regarding the acceptance and continuance of client relationships

Investigate new customer unite involves assessing potential client's reputation in the business community that the stability of its relations with financial and accounting expertise and audit firms that worked. Sources of information may include local lawyers, other auditors, banks and other businesses. In some situations, the auditor might even hire a professional investigator in order to obtain the necessary information on past reputation and key members of the management team of the prospective client.

The acceptance and continuance of client relationships and specific audit engagements include consideration of:

- The integrity of the principal owners, key management and those charged with governance of the entity;
- The extent to which team is competent to perform the audit engagement, and if he has time / availability and resources;
- Capacity of the company and team comply with ethical requirements.

Deciding whether to continue a client relationship includes consideration of significant matters that have arisen during the current or previous commitment and their implications for maintaining the relationship. For example, a client may have started expanding recurring activity in an area where the audit firm does not possess the knowledge or experience required; or the customer has developed an activity which, by its nature, is very risky and the auditor is willing to get involved, considering that lies indirect risk is too high.

Where the engagement partner get - before or during the mission - information that could lead to the resignation of the audit firm, it must communicate that information promptly audit firm so that it can take appropriate measures. For illustration, if a contract to review the annual financial statements in which it was agreed that any action honest audit team considered reasonable, but then there are some changes the position of the client entity, then it becomes natural that the audit firm -and reconsider. This case may be possible:

- The client insists to test financial relationships of a small number of borrowers, to not stress;

- We prohibit access to certain confidential contractual clauses;
- Required not evaluate auditee relationship with certain customers;
- We are not allowed expenditure verification protocol and various commissions, as the company deems considered taboo etc.

If such information were not made in discussions / negotiations employment mission and appear on the map, representing sensitive issues, not to mention risky, then team them to the partner company, which is part and on whose behalf it acts, because it can decide responsibly and knowingly on alternative forward.

B. assess compliance with ethical requirements, including independence team.

The engagement partner should take responsibility for the overall quality of each audit engagement to which he is appointed. Thus, among others, he is obliged to consider whether team members comply with ethical requirements presented in Fig. 1.

Partner notification remains attentive to cases of failure of ethics during the commitment.

If a problem occurs in the engagement driver's attention through systems firm commitment or in any other way, showing that the team members did not comply with ethical requirements, the partner, in consultation with others in the firm, determines the appropriate action. Responsible commitment and, where appropriate, other team members, document ethical issues identified and how they were resolved.

In as much as concern for ethics, the partner should form a conclusion on compliance with independence requirements that apply to the audit engagement. To do this, it must:

(A) obtain relevant information from the firm to identify the circumstances and relationships that create threats to independence;

(B) Evaluate information on identified breaches, if any, on policies and procedures of the firm's independence, to determine whether they create a threat to auditor independence;

(C) take appropriate measures to eliminate such threats or reduce them to an acceptable level by applying safeguards. Engagement partner shall promptly report to the firm any failure to resolve the problems of independence to take action;

(D) Document conclusions on independence and any relevant discussions with other partners, which support these conclusions.



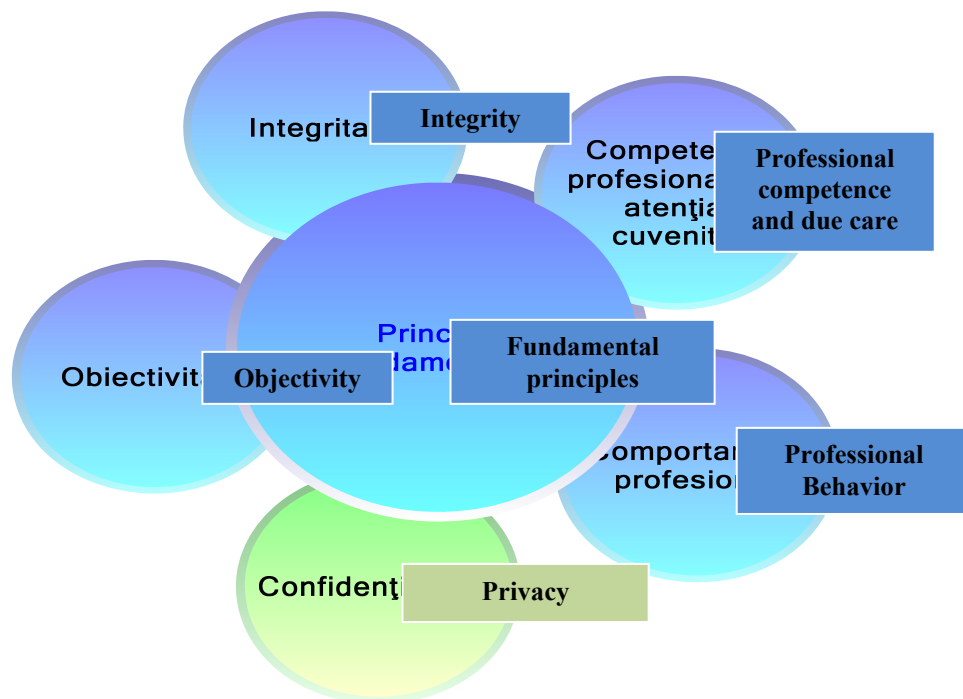


Figure no. 1 *Fundamentals principles of financial auditor profession*  
 Source: Horomnea E., *Financial Audit. Concepts. Standards. Norms*, Alfa Publishing House, Iași, 2010, pg. 93.

Auditor's attention on the continuity of the relationship with the customer and ethical requirements, including independence, occurs throughout the conduct of the undertaking as new conditions arise and changes in old ones. However, the initial procedures on the continuity relation officer and evaluation of ethical requirements (including independence) are performed prior to performing other significant activities for the current audit engagement.

***C. to establish an understanding of the terms of the engagement.***

The purpose of performing these preliminary engagement activities is to assist ensure that the auditor has considered any events or circumstances that may adversely affect the ability to plan and carry out the mission to reduce audit risk to an acceptable level low.

Before starting the initial commitment, the auditor should perform the following activities:

- a. to undergo procedures on acceptance of client relationships that are similar to "continue" relations, but efforts audit firm to know a new entity are somewhat different - much more consistent and inevitably accompanied by risks arsenal still unexplored;

b. to communicate with the predecessor auditor if there was a replacement in accordance with ethical and legal requirements.

The purpose and objective of the mission planning are the same whether an initial audit or a recurring audit. However, in an initial mission, the auditor may need to expand activities (pre) planning works because it has no previous experience with the entity. For initial audits, additional matters the auditor may consider in developing the overall audit strategy include:

- unless prohibited by law or regulation to enter into agreements with the predecessor auditor, for example on the review of the audit file of professionals involved therein;
- any major issue arises (including the application of accounting principles, auditing or reporting) should be discussed with management, communication aspects of those charged with governance and how these matters affect the strategy and audit plan;
- programming of all audit procedures necessary to obtain sufficient appropriate evidence regarding the opening balances;
- appointment of company personnel with the skills, abilities and skills appropriate to address significant risks;
- consideration of other procedures required by the quality control system of the audit firm for the initial commitments. For example, quality assurance system may require the involvement of another partner or senior staff to review the overall strategy of the mission before the actual start of significant procedures or to review reports prior to the issue - submission.

The objectives of the auditor in the pre-planning stage can be summarized in the Table. 1:

Objective	A method of making
Global knowledge society and risk areas	<ul style="list-style-type: none"> <li>- A summary of work carried out by the audited company</li> <li>- Obtaining information about shareholders or members of the parent or subsidiary, where the company is part of a group</li> <li>- Knowledge of their internal organization</li> <li>- Location of premises and working points, if any</li> <li>- The existence and importance of accounting department, the nature and quality of the work they perform</li> <li>- Knowledge of the main accounting regulations, legal and tax related to the company's business (accounting and tax characteristics)</li> <li>- Identifying size works executed (request for an audit of financial statements of a transaction or activity)</li> <li>- Specific deadlines respected</li> <li>- Delineation of potential areas of risk (related to the company's business, accounting organization, accounting methods, the financial and legal)</li> </ul>
	The auditor should consider whether features:

Objective	A method of making
Findings of independence, the absence of incompatibilities and auditor competence	<ul style="list-style-type: none"> <li>- Appropriate to the enterprise skills: knowledge of the industry and its work issues (legal, fiscal, social, risks)</li> <li>- Sufficient time available for the task, especially when auditing large companies or complex activities</li> <li>- The means to cover the mission within the time required, especially when expressing needs requirements for consolidation of accounts for the parent company etc.</li> <li>- Independent from the client: personal interest, fees importance in relation to the size of the enterprise customer and his cabinet turnover</li> </ul>
The decision granting the mandate	Based on the information collected to achieve two objectives earlier decision may be taken: <ul style="list-style-type: none"> <li>- To accept the mission, in which case the decision forms varies depending on the information obtained from risk analysis, so either accept a mandate without apparent risks or accept mandate under proper supervision and individual measures</li> <li>- Refuse mission</li> </ul>
Drawing letter of assignment	If the audit engagement is accepted, proceed to the preparation of the letter of assignment

*Source: Processing by A. Morariu, E. Turlea, accounting audit, Economic Publishing House, Bucharest, 2005.*

Table 1. *Objectives pursued by the auditor preplanning*

From the presentation above, it follows that the decision to accept an audit engagement should not be regarded lightly. As many authors say we subscribe to the idea that "the acceptance of a mission, the auditor assumes professional responsibility to the public, client and other members of the accounting profession."

As a problem that affects more than significant audit methodology profile, we considered useful some elements on theme difference between initial and recurrent commitment. For illustration, if we get an initial audit, and before us was not audited entity, the strategy focuses significantly on the examination of opening accounts. In other words, a recurrent audit, strategy start from the premise: the end of the previous accounts have been audited by us ... but an initial audit strategy and, in particular, the audit fieldwork begins with opening balances. If you are a recurrent audit, we realize not only a simple verification of the principle of inviolability balance. If the initial audit, both auditor and the entity, check balances initial action is extensive and expensive.

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## **CHINESE AUTOMOBILE ENTERPRISE STRATEGY ANALYSIS**

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### **Abstract:**

*China's auto industry also had a golden decade of explosive growth.*

*In 2009, China's auto market has exceeded the United States, the world's largest car market, and in 2013, China's auto production both breaks through twenty million. However, through the presentation of China's auto market booming, we should be acutely aware that the status of China's automobile industry in the global automotive industry value chain is still very low, this paper did analysis regarding the current situation, and also Japan, Germany, America oversea R&D development experience could also a good knowledge to know, and also the oversea M&A strategy should be considered. Meanwhile by analysis Romania experience to learn from each other.*

**Keywords:** *automotive industry, global strategy, overseas M&A, oversea R&D*

**Jel Classification:** L11, L12, L62

### **1. Introduction**

With China's rapid economic development, China's auto industry also had a golden decade of explosive growth. In 2009, China's auto market has exceeded the United States, the world's largest car market, and in 2013, China's auto production both break through twenty million, China has gradually become a new pattern of the development of the world auto focus, for the Chinese automotive industry abroad laid a good industrial base.

However, through the presentation of China's auto market booming, we should be acutely aware that the status of China's automobile industry in the global automotive industry value chain is still very low, only occupy the low value-added low-end value chain. Added value to the industrial chain is the core elements of technological innovation ability, therefore, to achieve the internationalization of China's automobile industry, must be as soon as

possible to carry out the Chinese automobile research and development of overseas strategic layout, in the new pattern of international division of labor to realize the internationalization of the whole industry chain.

The tide of global economic integration is the world's economic development and the trend of globalization in the new century, the globalization of auto industry value chain characteristics has been increasingly remarkable, R&D, purchasing, production and sales of auto enterprise globalization deepen increasingly.

Under the new situation, how to assess the situation, scientific and reasonable to develop China automobile research and development of overseas development strategy is to realize the auto industry in China in the international automobile industry value chain from low-end to high-end of the key, is also about the fate of China automobile industry development important topic.

## **2. China's auto industry to develop overseas agent and situation analysis.**

### **China's auto industry to develop overseas agent**

Across the global auto industry development situation, structure and center of gravity are profound changes have taken place, represented by China's rapid rise, emerging markets and the market is to determine the core elements of industry development, therefore, under the background of the increasingly fierce competition in the global car companies, China's auto industry is an excellent historical opportunity for bigger and stronger. Based on local Chinese market, global layout, improve industry core competitiveness, in the allocation of resources the dominant position in the global competition is the development target of China's automobile industry, which is the basic reason for the overseas development of the Chinese car.

From the perspective of the demand of enterprise development, go abroad to is an inevitable choice for enterprise development to expand overseas.

Historical experience shows that multinational development is the necessary way of car companies develops Volkswagen, Toyota motor company, famous automobile companies such as general motors, and all the overseas development as its core of enterprise development. For Chinese automobile enterprises, expand the scale of production, to avoid competition with existing large multinational auto companies, easing overcapacity, amortization design research and development costs, and other enterprises developing problems objectively requires enterprises broadly, seek a broader overseas development. Especially as the shortage of high-tech talent and common labor value, the rise of China's auto enterprises will face more dilemma, fight for resources, only in the global system in the international

division of labor, to accelerate the development of China's automobile enterprises and rise.

Once again, from the point of national development strategy, China's auto industry to develop overseas demand is also a kind of national strategy. Automobile industry is a typical high technology, large-scale, derivative type of pillar industries. Auto industry represents the development level of a country's level of modern industrial development, the development of automobile industry can directly or indirectly promote machinery, materials, electronics, logistics and financial, services a large number of development of relevant industries. In the United States, the car industry contribution rate is as high as 11.5% of GDP; In Germany, one 7 of the jobs and a quarter of the tax revenue is derived from the automobile and related industries; In our country, the automobile industry practitioners than never, the automotive industry to the national economy pull role is far more than 10%. Therefore, standing in the macro level of national strategic development, also calls for China's automobile industry abroad, improve the international influence.

### **3. The status quo of China's auto industry to develop overseas**

Entered the new one thousand years later, with the rapid development of China's automobile industry, Chinese auto companies began to develop overseas market. After ten years of development, China's automobile industry step by step, the steady development of abroad has made certain progress.

*(1) The number of motor vehicle and parts exports increased quickly*  
In recent years, China's rapid growth of the vehicle and parts exports in 2001, export 20000 cars in China, the export amount is only \$210 million;

In 2011, that figure was exported 850000 cars, export value of 11 billion dollars; In 2011, 2012 had greater growth and implementation, on the basis of the vehicle exports reached 1.016 million, the export amount to \$13.7 billion. At the same time, the parts exports from 2001 in 1.63 billion to 2009 in 25 billion.

However, although the product exports are growing rapidly, the amount, but the relative production, our country automobile products exports accounted for is still low, and automobile products exports still is given priority to with resources and labor-intensive products, low added value, the lack of core competitiveness. Especially with the increase of labor cost and international market competition intense degree of intensified, both the vehicle and parts exports showed a trend of decline in our country.

*(2) Increasing overseas investment in factories and overseas M&A*  
On the basis of the export of products, in order to continuously enhance their competitive strength, the use of global resources to realize development, some with international strategic vision of China's automobile

enterprises to seek to joint venture cooperation business, overseas subsidiaries and branches overseas to invest abroad to assemble and form of factory, and set off a upsurge of Chinese car companies overseas mergers and acquisitions. In March 2010, Geely's \$1.8 billion acquisition of Volvo cars company become in recent years, the biggest overseas acquisition cases of China's automobile enterprises. In addition, in 2013, Jianghuai automobile overseas KD plant has reached 12, Chery automobile has been established 16 overseas factories. But at present most of the Chinese automobile enterprises overseas factories are nature of the contract, only a few factories is a joint venture factory in the true sense.

*(3) set up R&D center become the development trend of overseas*

In the international automobile enterprises are set up R&D centers in China at the same time, Chinese car companies are also accelerating the pace of go abroad, development, and constantly to the depth field are set up overseas research and development center. Changan automobile is the first Chinese car companies to set up R&D center in overseas, currently, Changan automobile has been in Turin, Italy, Yokohama, Japan, Nottingham, Detroit, multiple overseas R&D center is established. In addition, Saic, Great Wall, Jianghuai automobile, and many other domestic automobile enterprises have established R&D center in overseas. Integration of global resources, absorb international high-end technical personnel, improve capacity for independent design and development, reduce development cost, shorten the difference with the international level has become more and more the development of China's automobile enterprises.

#### **4. The problem analysis of China's auto industry to develop overseas.**

Although the overseas development of the auto industry of China is on the rise, in general, but also more and more exposed some problems to be solved.

1) Automobile products export share absolute smaller and lower level Chinese automobile products export share of the domestic car production and have very low share of global trade, under the background of global economic integration, China's automobile industry export quotas in conformity with its own market position extremely, and automotive technology developed countries gap is obvious. For example, the world's leading auto export countries such as America, Germany, Japan and other car exports are more than millions of vehicles, and the amount of export cars in our country can only to the world's total exports accounted for about 2%.

Only break through the bondage of export absolute can win in the global car trade. In addition, at present our country automobile enterprises to export products still give priority to with the medium time models are



mostly low prices, export economy cars and light trucks, pickups and other kinds of commercial vehicles, technology is not high, value-added products level is low, difficult to form brand awareness.

2) *Auto enterprise international competitiveness is not strong*  
Because most of China's auto export enterprise on a smaller scale, innovation ability are relatively weak, technical level is relatively backward, and lack of unified strategic planning for a long time, lack of in-depth analysis of the overseas market, lack of international experience, it is difficult to form a competitive advantage. In addition, the Chinese automobile enterprises still exist between malignant competition situation, just rely on low price to win, it is difficult to obtain sustainable development.

3) *Service system construction lag*

After-sales service is another main problem of China's automobile enterprises to export. About 1000 cars in our country export enterprise, most enterprises export less than 10 vehicles most of these enterprises have not been established after-sales service network and service system. Even bigger car enterprise exports abroad, also is not very perfect after-sale system. So many joint brands has entered the Chinese market for many years with the established perfect after-sales service system, compared to China's auto export enterprise service system construction the serious lag.

Second, the typical international automobile enterprises seeking overseas R&D development history, present situation and the characteristic. With the rapid development of science and technology and economic integration accelerating, the auto industry technology research and development activities also has had the profound change, new and high technology diffusion, transfer and application of speed is greatly increased, the globalization trend of the automobile research and development has become increasingly apparent.

In order to make full use of local human and technical resources, reduce the enterprise research and development costs, and at the same time in order to make the products more in line with the local market demand, reduce development risk, many multinational auto companies will be technology research and development centers spread around the world. Using the network information technology, these car companies can make even located in different location of resources of science and technology to achieve 24-hour collaborative design, form a global development capabilities.

### **5. Toyota overseas R&D development experience**

Japanese car model of enterprise is more successful internationalization development. Japan's Toyota, for example, any it into the international market, the first is often its parts suppliers and R&D

institutions. In 1957, for example, after the first crown car export American market rout, Toyota service, actively adjust to the United States market, and in October, 1973 in the United States formally established R&D CALTY design research co., LTD., was established in June 1977 Toyota technical center (USA) co., LTD. Toyota technical center in the United States to be able to react according to the market demand fast, combined with the unique advantage of Toyota in North America developed close to the north American consumers, products that meet the market demand, this to the success of Toyota in North America have laid a solid foundation.

There is the experience after Toyota before launch new technologies and products, can fully understand the local market demand, according to different cultural background and the appropriate products, so, Toyota's product often is not only a few global models, also includes a large amount for markets across the specific needs of the models, such as Asian dragon, Scion, Matrix for north American market, according to the Asian market crown, etc.

Currently, Toyota to build nine R&D center in the whole world, including Europe, North America's 3, 2 in Asia, Oceania one. The technology center is engaged in the tasks included in the collection and local car design future trends and trend information, regarding the automobile performance and appearance, the types of interior design and color and proposed advice and support local production. In 2013, with the successful overseas development strategy, Toyota's new car sales to 9.96 million, the world's first for two consecutive years.

## **6. General motors overseas R&D development experience**

American general motors company, founded in 1908, headquartered in Detroit, since founded ten years, gm began to expand overseas business by way of purchasing, factories overseas. In the early 1920 s, the general in order to realize the industrial layout in North America, Europe, Latin America, gm has so far in the global 35 countries and regions to establish a car manufacturing business. At the same time, general motors has established a worldwide general technology center, the pan Asia technical automotive center and so on six big core researches and development center, formed the global technology development system.

In June 1997, gm's joint venture with Shanghai automotive industry corporation was founded in Shanghai general motors, with a Buick new century is declared to enter the Chinese market. That year, general motors, Saic, Shanghai gm is in the domestic set up the first automobile R&D center of a joint venture -- pan Asia technical automotive center, training local design talents, truly products in China market. Eight years, GM has topped the China passenger car sales.

### **7. The German VW overseas R&D development experience**

Volkswagen was founded in 1937, after World War II, Volkswagen gradually began to international development, in 1950, Volkswagen foreign market sales have accounted for more than a third of the total sales. While enduring, famous Volkswagen beetle cars today, still maintained a unique style. In 2009, Volkswagen group sales in the global new car 6.3 million, more than at the time of Toyota, become the world's largest automotive group, its international market product sales accounted for 83.4% of total sales group.

Attaches great importance to the technology development is the foundation of Volkswagen's success, worldwide, German car technology in a leading position for a long time, but the Volkswagen group subsidiary has research and development institutions, including company wholly owned by Volkswagen, Audi, Skoda, and joint venture companies such as Shanghai VW and Faw-VW. Group of research institutions is given priority to with German research base, and set up multiple in overseas research and development organization, including Palo Alto, California, USA electronics research laboratory, Shanghai Volkswagen research laboratory and technical representative office in Tokyo. Technology research and development, the products of Volkswagen will always reserve and planning, as a primary task for the sustainable development of company, these are all worthy of Chinese car companies to learn from.

### **The development of Chinese automobile research and development of overseas strategic thinking and Suggestions.**

China's automobile industry to enter the international market is the trend of The Times, and the development of Chinese automobile research and development of overseas is also necessary. But in both China's auto industry across the road to the overseas development of Chinese automobile research and development is not smooth. This is because the Chinese national auto industry is still in growth period, compared with the old car power, our car companies started very late, development time is shorter, technology and management is very weak, the lack of internationalization operation experience and long-term support overseas development strategy; Second, China's auto enterprises independent innovation ability is weak, the lack of core competence, this has become a main factor restricting the development of China automobile overseas R&D; Again, the international environment for the development of China's automobile industry is not smooth, as well as the domestic market and overseas market competitive tragic vision field, large multinational auto companies will not easily give up the market and technology monopoly advantage; Finally, our country

automobile overseas development is still in its infancy, the lack of the development experience of the international market, the exporter of the legal policy environment, technical standards and certification standards, management process and the lack of adequate understanding. These problems are often not through the efforts of a single enterprise can solve, but need a car enterprises and the government work together to formulate suitable development strategy of China auto overseas, jointly cope with the problems encountered in the development.

#### **8. Measures for Chinese enterprise development in the overseas development strategy.**

(1) clear overall strategic planning, and gradually establish a management mode that suit the development of overseas Car companies in the development of the globalization process, formulate clear and practical overseas development strategy is very important. On the one hand, enterprises to develop international operation must comply with the overall development strategy, adapt to the international market development trend, to avoid blind investment and expansion. Enterprise should according to their own strength, on the other hand, carefully consider the way of "going out", while to expand the international market, to balance the development speed and quality, ensure the quality of development and level, strengths, enhance the risk awareness, reduce blindness.

In addition to this, and gradually establish a management mode that suit the development of overseas and enterprise system, the scientific management of personnel and financial management refinement, properly handle all kinds of contradictions and conflicts in the process of the "going out". In fact, China's automobile industry and automobile industry in developed countries compared to the greatest difference is not the technology, but management. Technology may be in a relatively short period of time to learn and make up for, but it's hard to management level in the short term to complete metamorphosis. Management mode is more of a corporate culture establishment and inheritance. In the process of the development of Chinese automobile research and development of overseas, must attach importance to management innovation enhance the level of automobile enterprise innovation management, to adapt to the internationalization development in different angles.

(2) Attract international talent, the research and development of Chinese car companies overseas development, the reserve force has a large number of overseas multinational operation of operator is the premise and key to success. To realize the overseas development of Chinese automobile research and development must attract, develop and reserve enough international talent. First of all, to increase investment in talent

development, arrange special funds for training or talent introduction, some investment in China's foreign auto manufacturers in the domestic many colleges or departments set up a special fund to attract talent, this is the domestic enterprises in the overseas development place worthy of learning;2 it is to send a special technical and management personnel to study abroad or training, learn from foreign advanced technology and management experience of the multinational company; Three is to establish effective incentive and restraint mechanism, realize the talents of complementary advantages and evolution.

(3) Increase investment in scientific research strengthens cooperation with research institutes at home and abroad.

Car companies only vigorously promote innovation research and development strength, product technology and quality level of the car to a more secure, can be improved the overall Chinese car brand, technical content in research and development of overseas development abroad, can be more confident, be more confident in dealing with intellectual property disputes, to have more say in bargaining. So automobile enterprises should attach great importance to the development of integration of domestic and foreign resources, increase investment in scientific research, improve the independent research and development ability, strengthen the cooperation with universities and research institutions at home and abroad, through joint development, research, technical consultation, personnel training, patent transfer, project financing way to promote the research and development ability of ascension.

(4) The reasonable choice and configuration of overseas research and development base. Car is a kind of in a state of flow of goods, to build research and development base, overseas is not just for the enterprise internal make products suitable for the international trend, more important is the enterprise to enter the overseas markets to create conditions for the future. Draw lessons from foreign large automobile enterprises overseas R&D experience is a dose of Chinese enterprises to gain a foothold in foreign markets. In the current stage, the overseas automobile technology development base choice for developed countries and regions, so that the talents convergence fast and technical resources. But with the rapid development of China's automobile products in emerging markets, can consider the main export destination countries set up research and development institutions, can better understand the local culture, market and policy, develop products suitable for the market, eventually to promote the brand image of the product, expand the export sales.

(5) choose a suitable mode of overseas research and development, reasonable overseas mergers and acquisitions Chinese car companies can be

based on the development of their own choice suitable mode of overseas research and development, for example, buy overseas mature technology, with multinational companies for technical cooperation, establishing innovation alliance, set up joint research institutions, and independent set up R&D center, overseas mergers and acquisitions, etc.

Overseas mergers and acquisitions are some automobile enterprises to exploit overseas market, the effective ways to obtain overseas resources and advanced technology, but must at the same time to realize resource integration problem after the merger, political risk, cash flow problems, talent and brand positioning issues, etc.

Geely's purchase, which is China's auto industry by far the most important overseas acquisitions, Giovanni Cobolli Gigli has obtained Volvo through the acquisition of this one hundred - year - old high-end brand image, also won nine major series, three new platforms of rich products, and its key technology and the ownership of intellectual property rights, including the Volvo cars proud of safety and environmental aspects of intellectual property rights, in addition, Volvo, distribution of more than 100 countries around the world more than 2400 dealers and service network will continue to expand the Volvo brand to Geely of global market, and for the future Geely and Volvo cars in terms of sales. But for Geely automobile, how to ensure that Volvo luxury brand position, the core of how to retain Volvo's most valuable asset - talent, how to establish mutual trust of both sides of Labor and capital relations after completing the acquisition, realize the depth of the brand culture fusion is Geely, one of the biggest challenges facing China's other car companies in mergers and acquisitions overseas automobile industry need to consider and respond to questions.

(6) play their own advantages, draw lessons from the successful experience of foreign enterprises to expand overseas research and development.

In recent years, our country independent brand automobile enterprise has made the leap type development, Geely, Chery, BYD automobile group passenger car independent brand strategy actively, compared with foreign enterprises, the accumulation of a series of advantages, such as price advantage and market advantage, capital advantage, etc. In the process of development of overseas research and development, can fully volatile these advantages, realize the gradual global research and development layout.

At the same time, we still need to be aware of their deficiencies and defects, we shall start from the typical vehicle technology for the research and development of overseas development of the advanced countries in the history of seeking their successful experiences and failure lessons, learn the advanced technology of foreign automobile enterprises and overseas development management model, combined with its own development

advantages, create world-class automobile overseas R&D institutions in China.

### **9. China automobile research and development in the overseas development strategy and policy of the government**

(1) to develop auto industry overseas development strategy Automobile industry is the national economic pillar industries, the government should be clear to overseas development to rise to the national strategy of auto industry, the establishment of national macro strategic development planning, in capital investment and policy guarantee, convenient to give support.

(2) the auto enterprises overseas development of unified and effective coordination and guidance on specification.

The height of the government to stand at the national level, through the strategic planning to coordinate the export behavior of export enterprises, standardize the order of export, guided vehicles overseas enterprises to establish a reasonable development strategy, to avoid the balance-and mutual price war vicious competition among enterprises behavior, establishing the image of Chinese brands.

Should be set to auto export enterprise, moreover, accurate threshold, on the one hand to some large exports, export auto enterprise with scale advantage for support, on the other hand exports to eliminate small and weak export enterprises. Also for automobile export enterprises in overseas channels, service node number set up corresponding regulations, planning and corresponding standard enterprise exports to cannot achieve, to cancel the export qualification of the car, and deliberately to disrupt the export market, vicious price competition, and extreme irresponsible enterprises should have punishment, establish healthy competition environment in order to maintain the overall interests of China's automobile.

(3) the government should increase policy support, to do a good job of service Government should increase policy support, increase the fiscal and taxation financial support, loans, guarantees, credit insurance policy support, organizational competitive enterprises set up R&D centers abroad, joint, joint set up overseas parts supply center, marketing and after-sales service network.

In addition, the government should also do a good job in service for the Chinese car companies overseas development provides a good external environment, to help enterprises deal with trade barriers, intellectual property issues, effective to solve international disputes, the escort overseas development of Chinese auto enterprise research and development, set up system advantage. Actively promote the export qualification management, export tax rebates and trade disputes in the face of the cafta construction,

overseas investment, visas, cargo customs clearance, commodity inspection, product management, RMB, and export credit insurance, the facilitation of international logistics, etc.

### **Conclusions**

As early as in 2000, the Chinese government will put forward the strategy of "going out", the "introduction" and "going out" together, the better use of two resources and two markets at home and abroad. Later, many meetings also stressed the need to speed up the implementation of the strategy of "going out", and to promote overseas investment facilitation, support conditional enterprises in overseas mergers and acquisitions, participate in international economic cooperation and competition.

In addition, China's automobile manufacturing industry has been occupies an important position in national economy. 2009 countries issued "automobile industry adjust the revitalization planning rules", including "the small-engine passenger vehicles under 1.6 litres and vehicle purchase tax shall be levied at a reduced 5%" and "car to the countryside" the two policies and measures to pull the car sales growth played a crucial role. With the implementation of the tax cuts, and under 1.6 L car sales once occupied more than 50% of the total sales, promote the independent brand market share increased substantially. While the implementation of the car to the countryside policy making micro bus type "beacon" of the market. At the same time, it is pointed out in this file to encourage car industry merger and reorganization. Pointed out that, the "details", proposed by annexation and reorganization, the formation of 2 ~ 3 production scale more than 2 million large enterprise groups, develop a 4 ~ 5 scale production and sales more than 1 million of car enterprise group.

At present China automobile enterprise acquisitions overseas car companies are "small fish eat the big fish", basically belongs to leveraged buy-outs, by loan from the bank acquisition task. Because of China's automobile enterprises asset scale is small relative to foreign companies, the acquisition of the initial capital has bring great debt burden to our country automobile enterprises. Enterprise M&A cost consists of two parts, the initial cost and integration costs. Chinese enterprises overseas mergers and acquisitions tend to focus too much on market price or the initial costs, integration costs after the merger is a lack of understanding. And integration costs is the biggest future risks, mergers and acquisitions in overseas mergers and acquisitions, considering M&A deal price alone is not enough.

Such as Giovanni Cobolli Gigli acquisition Volvo, Volvo's offer is very low, but this does not mean that the entire merger and acquisition cost is very low. TCL has occurred before buying Thomson TV business integration costs huge event. When mergers and acquisitions so that pay a



small amount of money is just cost at sight, enter after pay more subsequent costs, operating costs, these costs include the debts of the enterprise have to bear the future as well as the cost of upgrading, but also care about once the exit out of cost.

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