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CONTENTS

FLORIN BONCIU	<i>G 20 - A STEPPING STONE TOWARDS A NEW WORLD ORDER?</i>
AGNES GHIBUȚIU	<i>ROMANIA'S TRADE IN SERVICES: REAPING THE BENEFITS OF GLOBALIZATION</i>
LUMINIȚA TULEAȘCĂ	<i>INSOLVENCY IN THE CONTEXT OF THE PRESENT FINANCIAL CRISES – A COMPARATIVE ANALYSES</i>
THEODOR VALENTIN PURCĂREA	<i>CONFIDENCE CRISIS AND EXITING NAIVE REALISM THROUGH INTEGRATIVE THINKING</i>
STELA AURELIA TOADER, IULIANA BUTUCARU, IULIANA PREDESCU	<i>THE PUBLIC PENSION SYSTEM COMPARATIVE STUDY BETWEEN ROMANIA AND GERMANY</i>
DANIELA FIROIU CEZAR MIHĂLCESCU PATRICIA DODU CRISTINA MANIU BONI STRĂOANU, DANIELA IOV	<i>HUMAN RESOURCES, IT SYSTEMS AND THEIR ROLE IN IMPROVING THE EFFICIENCY OF TRAVEL FIRMS</i>
	<i>ACCOUNTING OF LEASE CONTRACTS ACCORDING TO IAS 17 "LEASING CONTRACTS"</i>
CORINA IOANAȘ, MIRELA NICHITA MIHAELA GRUIESCU NICOLETA - ROSSELA DUMITRU COSTEL - ILIUȚĂ NEGRICEA ALINA SLAPAC PREDĂ OANA, AVRAM EMANUELA, FURDUI IULIA	<i>FACTORS THAT AFFECT DIVIDEND POLICIES</i>
	<i>SOCIAL TOURISM- A FACTOR IN CULTURAL, SOCIAL AND ECONOMIC CHANGE</i>
	<i>RELATIONSHIP BANKING MARKETING AND ITS IMPLICATIONS ON PIRAEUS BANK</i>
ANDREEA BĂLTĂREȚU MARIAN BUSUIOC	<i>THE MANAGEMENT OF THE NATURAL PROTECTED AREAS AT A NATIONAL LEVEL</i>

G 20 - A STEPPING STONE TOWARDS A NEW WORLD ORDER?

Florin Bonciu*

Abstract

The paper examines the main decisions made at the 24 - 25 September 2009 Pittsburgh Summit of G20 and their implications on the design and implementation of a new world order. The analysis reflects the long term trends and changes in the world economy that have led to the necessity of significant changes in the institutions and procedures that govern international economic relations.

Keywords: economic crisis, world order, G20, G8, peer review, 21st century international economic architecture.

JEL Classification: F02, G01, P16

The simple fact is that the idea of a new world order is not new, nor it refers to a specific period in time. In the context of this analysis we use as an operational definition of world order the Georg Sorensen's one: world order represent a governing arrangement among states, meeting the current demand for order in major areas of concern¹.

A new world order emerged after all major crises in all known history and therefore it is more appropriate to say that once in a while, not too often, the world balance of power changes, new actors emerge or the relative position of existing actors changes substantially.

The world balance of power changes when enough tensions and existing crises accumulates beyond a certain point and the change is objectively necessary. The point here is that in majority of cases the actors react because they have to rather than because they want to. A world order is a solution found after a change took place, much less a theoretical project to be imposed upon reality (even if some attempts were known but they all failed).

The world order existing after the second world war changed in 1990 but only in a transitory way because it was not simply changing from bi-polar to mono-polar world but rather to a multi-polar world in becoming. Moving beyond the national

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¹ Georg Sorensen, What kind of world order? The international system in the new millennium, American Political Science Association Annual Meeting, Chicago September 2-5, 2004.

scope, the developments and trends which manifested in the world economy after 1990 have made less clear the division between developed and developing countries. After November 2001 when Goldman Sachs coined the term a new group of countries started to be mentioned more and more as a future pole of economic growth and power – BRIC (Brazil, Russia, India, China)². The BRICs exceeded Goldman Sachs's original expectations: . the investment bank predicted that the four economies would comprise more than 10% of the global output by the end of the decade; they have already reached 15%.

Therefore, the apparent demise of G7/ G8 of today is not a result of the economic crisis of 2008 - 2009, after all the current economic power of China is built on political decisions made 30 years ago. As well, the growing disequilibria between deficit and surplus economies in the world economy is also decades old. At the same time the replacement of G8 by G20 solves in a way a problem of representativity in the sense that G20 reunites countries that generate 90 % of world output and represent two thirds of world population.

It is true that this replacement of G8 by G20 solves the old dichotomy between Western or developed countries and the South or developing ones. At the same time, after the announcement that G20 will establish a new system of economic cooperation designed to minimize unbalanced growth in the world economy there were voices to protest against this position. Countries like Switzerland, Singapore or Qatar and even United Nations expressed concern regarding the legitimacy of a body that include 20 members but is prepared to issue decisions referring to all countries of the world.

From a different stand point we can say that what the current economic crisis did was to reveal a situation that already existed, to put it in the limelight. Simply put the world economic crisis showed in a dramatic way who has the economic power and financial resources to do significant things and who doesn't.

Accepting this reality the discussions among G20 members led to a number of important decisions at the meeting of April 2009 which took place in London.

With that occasion the members agreed on six main topics:

- G8 leaders recognized the need to make G20 a permanent forum;
- Specific actions were taken towards the Millennium Development Goals, such as increasing the resources of IMF and adopting new facilities such as the Flexible Credit Line;
- The commitment to change the mechanism for selecting leaders of international institutions such as World Bank and IMF;

² Dreaming with BRICS: The path to 2050, Global Economics Paper no. 99.

- The strong commitment against protectionism and competitive currency devaluations by member nations;
- New financial regulatory framework that balances political desires, and issues such as tax secrecy;
- International trade and development commitments and national spending commitments in excess of \$ 5000 billion.

As result of this considerable foundation put by the G20 meeting in London the blueprint of a new world order was presented explicitly in Pittsburg in September 2009 and has determined **three institutional consequences** which mark an important shift in international macroeconomic policy:

- one is the fact that G20 was consecrated as the world's primary economic coordinating body;
- the second refers to recognition of a need for a change in quota and voting rights within the IMF in the sense of giving greater voice to emerging powers. According to these proposals the governance structure of the IMF will change, with “under-represented” (mostly developing) countries getting at least 5% more of the voting rights by 2011. In this context, part of the voting power will be relocated most likely from European countries to China, India and Brazil³.
- the third refers to the ascension of the Financial Stability Board (FSB), a club of central bankers and financial regulators, which has also been broadened to include the big developing countries. From now on the Financial Stability Board will take a lead role in co-ordinating and monitoring tougher financial regulations and serve (along with the IMF) as an early-warning system for emerging risks. The role of FSB seems so important that Tim Geithner, America’s treasury secretary, considers it to be the “fourth pillar” of the modern global economy, along with the IMF, the World Bank and the World Trade Organisation⁴.

Another consequence which derives from the proposed new institutional architecture of the world economy refers to a new mechanism to be implemented called “peer review”. The proposed mechanism will require the G20 members to present their economic policies to "peer review", that is to expose their economic policies to broad scrutiny. Under the proposal the G20 leaders will annually agree on outline objectives for growth, and then ask the IMF to carry out a form of assessment or peer review to ensure member states compliance with plan objectives.

Such a “peer review” will give international oversight over sovereign economic policy making and aims at avoiding further exposure of the world economy to the

³ Daniel McDowell, Pittsburg G 20 summit favor “the Rest” over the West, World Politics Review, 29 September 2009.

⁴ Regaining their balance: A new chapter for the world economy, maybe; The Economist, September 26, 2009.

potential harmful consequences of decisions of individual countries⁵. In a perfect world such a mechanism would have as result a sort of world “macroeconomic policy” based on consultations which could make China to boost its consumer demand, the United States to cut its borrowing from overseas, and the European States to encourage investment.

An interesting question deriving from the above may be if a functional and successful “peer review” mechanism carried out by IMF or other institution would pave the way to a future world government.

The feeling of a world government in the making is also determined by the objectives stated in the preamble of the leaders’ statement of the Pittsburgh meeting; “we pledge to adopt the policies needed to lay the foundation for strong, sustained and balanced growth in the 21st century..... We want growth without cycles of boom and bust and markets that foster responsibility not recklessness”⁶.

Growth without cycles means intervention and to do that effectively at a global scale requires a powerful world institution which can only be imagined today.

On a more immediate agenda of G20 there are however issues like employment (and in a broader perspective educations – new skills for new jobs) and achieving sustainable growth particularly through innovation (and solving in the process also difficult issues like climate change, new energy sources and being able to compete at a global scale). On a more immediate front there are the issues of tax transparency at a global level, promoting trade and investment and food security⁷.

These items on the global agenda are practically pushing the West towards a sometimes reluctant acceptance of the emerging economic powers not only because of the need of their financial resources but also because the above mentioned key issues cannot be solved or kept under control without the participation of all key players.

One thing that is clear is that if immediate, even partial, solutions are to be found for things like strengthening international financial institutions, tackling excessive risk-taking and tax havens, reform financial regulation and supervision, developing exit strategies from stimulus measures that have been put in place to fight the economic crisis then all significant economic powers have to participate.

In retrospect, the G 20 Summit in Pittsburgh gave arguments for an apparent trend in the world economy towards the increase of the role for countries not for integration organizations. The world economy seems to make moves towards a global integration through increased consultation among main countries rather than towards the increase of the role of organizations of regional integration. If this

⁵ Eduard Helmore, ‘Peer review’ breakthrough expected from G20,

⁶ Leaders’ Statement: The Pittsburgh Summit, September 24 – 25, 2009

trend will prove to be true then European Union as we know it may belong to the past while the future may be represented by a federation of European regions.

Anyway, during the Pittsburg summit the European countries (also members of the European Union) had a number of diverging aims: France and Germany supported the implementation of legally binding cap on bankers' bonuses while Great Britain opposed that; Great Britain supported the appeal to surplus countries to limit their trade surpluses while Germany did not. At the same time, the European countries as a whole could not prevent the discussion on reducing the size of the International Monetary Fund's (IMF) executive board, an issue which may affect some of them in the near future⁸.

As a conclusion we can say that the crisis is redrawing the world map of economic power as the influence of US consumer spending declines and major emerging markets like China and India take the lead. Recent forecasts show that China and India are helping to pull the global economy out of recession. Therefore a multipolar economy less reliant on the US consumer will be a more stable world economy. These statements are based on the data presented at the IMF-World Bank Board of Governors annual meeting in İstanbul which took place on October 6-7, 2009. According to the IMF forecast emerging and developing economies would grow 5.1 % in 2010, in contrast with just 1.3 % in advanced economies. At the same time China's economy was projected to grow by 9.0 % in 2010 and India's by 6.4 %, far ahead of 1.5 % expansion in the US economy⁹.

Based on these economic realities the broad ideas and concepts of a new world order are already available and even if G20 and the new IMF are far from a fully functional mechanism they give a perspective of the global economy of tomorrow.

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⁷ OECD and the Pittsburgh G20 Summit - boosting jobs, reshaping the global economy

⁸ Jim Brunsdon, Pittsburgh: consolidation, but no revolution at G20 summit, 27 September 2009.

⁹ World Economic Outlook October 2009: Sustaining the Recovery, International Monetary Fund, 2009.

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ROMANIA'S TRADE IN SERVICES: REAPING THE BENEFITS OF GLOBALIZATION

Agnes Ghibuțiu*

Abstract

Ample anecdotal evidence over the last couple of years points to Romania's growing attractiveness as location for offshoring decisions by Western companies, and the subsequent rise in offshoring-related services activities. This paper aims to explore if and to what extent these relatively new developments are backed up by official trade and FDI statistics. Drawing on recent literature on the topic of services offshoring, it analyzes Romania's trade and FDI flows in services over the 1995-2008 period in terms of dynamics, composition and performance. The findings of the empirical investigation suggest that the remarkable export growth in some individual services categories in the last years, as well as the positive changes under way in the patterns of services trade are largely driven by globalization, i.e. by enhanced offshoring activities hosted by the Romanian economy.

Keywords: trade in services, FDI, offshoring, Romania

JEL classification: FO2, F14, F21, L80

1. Introduction

The current phase of economic globalization, characterized by revolutionary advances in information and communication technologies (ICT), and accompanied by far-reaching liberalization of trade and FDI flows, has to a significant degree been driven by the internationalization of services.

Services include activities as diverse as transportation, travel, communications, financial intermediation, distribution, construction, accountancy, advertising, market research, education, and health care. These activities account for a substantial and rising share of GDP and employment in almost every economy. But their importance goes beyond the services sector itself, as they are essential inputs into the production of virtually all other goods and services. Because the price and quality of the services available in an economy have major impacts on all sectors, an efficient services sector is an essential precondition for enhancing overall economic performance.

In the process of internationalization, services that used to be regarded as non-tradables can be increasingly subjected to the international division of labor. ICT and larger access to world markets increase the tradability of services in a revolutionary manner and allow cross-border trade in services to expand, providing companies with incentives to slice up the value-chain geographically. Hence, services activities

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are now less constrained in their choice of location than they have been traditionally, meaning that many types of services that were previously only tradable through the movement of the provider can be now supplied from remote locations, via telecommunications networks. For many companies in all sectors this means that the production of various ICT-enabled services may be “outsourced” or “externalized”, i.e. turned over to other specialized companies. And if it can be “outsourced”, then it can generally also be “offshored”, i.e. turned over to specialized companies located outside national borders (Kirkegaard, 2005). By fragmenting the production of ICT-enabled services internationally – in locations situated outside the firms’ home countries – companies can gain economies of scale from consolidating and standardizing their service activities across the globe (UNCTAD, 2004).

The growing internationalization of services and the greater ease with which services markets can be today contested worldwide create opportunities for developing new sources of export growth. It also offers the prospect of a much broader range of services and technical know-how that can be imported efficiently. Practically, export and import opportunities are strongly intertwined: imports of high quality and/or cheaper services are often an essential prerequisite for a more efficient and competitive domestic production and hence for increased services exports.

For countries capable to exploit the new opportunities, the internationalization of services can make a positive contribution to sustainable development and international economic convergence. In contrast, countries that fail to secure the efficient supply of services run the risk of falling further behind. However, in order to benefit from globalization and its attendant “splintering” or “fragmentation” of the production chain, enterprises must have access to efficient services inputs. Hence, to harness the new opportunities associated with this process countries need to consolidate their capabilities to generate services flows, and improve the efficiency in the provision of services. In the increasingly competitive global setting, access to services in a cost-effective manner has become a key determinant of companies’ competitiveness.

These remarks bring us to the following questions: What are the current trends and patterns shaping Romania’s international services flows? Did the country benefit from globalization so far? Answering these questions is all so more timely and appropriate as the development of numerous services categories started from an extremely low base, and Romania ranked among the least services-oriented economies in Central and Eastern Europe (CEE) at the beginning of the transformation process.

On the other hand, in the context of the recent waves of EU enlargement, Romania has caught increasingly the attention of media reports worldwide for its high potentiality as target of offshoring decisions by Western companies. Subsequently, another question arises: What happened during the more recent years in the area of services flows so as to fuel the quite large amount of anecdotal evidence backing up Romania’s growing attractiveness as offshoring location?

This paper attempts to find the answers to the above questions.

Section 2 gives an overall picture on the dynamics, composition and performance of Romania's trade in services over 1995-2008, and documents a set of features which might be relevant for enhanced services offshoring. Section 3 summarizes the main points arising from the literature on the topic of services offshoring, and sets out the conceptual and methodological framework underlying the analysis. Section 4 evaluates Romania's trade in offshorable services, and explores how well is the country suited to cope with the challenges raised by services globalization. Section 5 combines official FDI statistics with alternative sources of information to underpin the observed trends in services trade. Section 6 concludes.

2. Current Trends in Romania's Trade in Services: Soaring Exports and Emerging Structural Changes

The previous economic system left Romania with one of the most depressed services sectors and the longest paths towards a services-oriented market economy among the former communist countries in CEE. Hence, when looking into the evolution of the country's trade in services, it is of utmost importance to bear in mind the very low base it is growing from.

In the highly centralized Romanian economy, with nonexistent private sector and noncompetitive environment, with strong monopolistic positions of state-owned enterprises, lack of entrepreneurship and isolation from international markets, the scope for developing services in general, and business services in particular has been drastically restricted (Ghibuțiu, 1999). Besides, services have been relegated to a status of less importance in the process of growth and development both in terms of theory and economic policy. Implicitly, trade in services did not focus the attention of policy decisions. It was regarded as a mere complement to trade in goods (e.g. transports) or a source of foreign exchange earnings (e.g. tourism). And evidently only exports counted, while imports were oppressed.

Consequently, when Romania started to move towards market-oriented policies and institutions, a wide range of services categories, particularly business services (e.g. legal services, accounting and auditing, advertising, market research, management consulting, etc.) were either nonexistent or not developed according to Western standards. Nevertheless, since the start of the transformation process, Romania has experienced substantial progress in adjusting and opening its economy, and integrating it into the world economy both in terms of goods and services flows. The prospects of EU accession, the consequent adoption of the full body of EU law, as well as the gradual integration of Romania into the European market have further increased pressures to upgrade its services supply to the level of the old EU members, and to attract FDI into higher value-added services, including export-oriented services.

While progress in modernizing the domestic services industries and enhancing their contribution to the country's international trade flows has been remarkable, Romania is still lagging behind the EU-15 in many respects. Also, the discrepancies between Romania and several new EU member states (NMS) continue to be notable.

These may be in part explained by the specific starting conditions of the individual countries, but the primary cause relates to speed and depth in promoting economic and institutional reforms. Those NMS that managed to attract from the very beginning of the systemic transformation large amounts of FDI due to stepped-up and comprehensive economic reforms (e.g. Hungary, Poland, the Czech Republic) have witnessed a faster shift towards a services-oriented economy and, implicitly, a deeper trade integration in the area of services than Romania.

Table 1 illustrates the evolution of Romania's trade in services over the 1995-2008 period, and some of its salient features based on Balance of Payments (BoP) data.

Table 1: Romania's trade in goods and services, in 1995-2008

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Trade in goods (EUR mn)										
Exports	6117	11269	12712	14676	15614	18935	22255	25850	29549	33614
Imports	7336	13099	16028	17437	19569	24258	30061	37609	47371	51813
Net	-1219	-1830	-3316	-2761	-3955	-5323	-7806	-11759	-17822	-18199
Trade in services (EUR mn)										
Exports	1155	1899	2270	2482	2671	2903	4104	5587	6931	8751
Imports	1407	2167	2398	2473	2609	3116	4448	5583	6454	7915
Net	-252	-268	-128	9	62	-213	-344	4	477	836
Share of services in total trade (goods and services) (%)										
Exports	15.9	14.4	15.2	14.5	14.6	13.3	15.6	17.8	19.0	20.7
Imports	16.1	14.2	13.0	12.4	11.8	11.4	12.9	12.9	12.0	13.3

Source: Own calculations based on bop statistics, national bank of Romania.

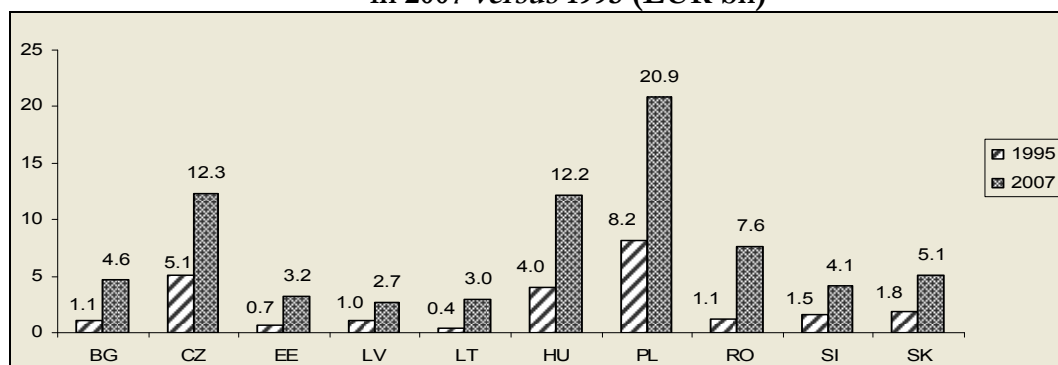
Trade in services has been expanding steadily throughout the analyzed period, with exports being presently over 7 times greater than in 1995, and imports almost 6 times. Services exports (in nominal terms) amounted to EUR 8.8 billion in 2008, while imports stood at EUR 7.9 billion. Notable is the rise in the share of services in total exports (goods plus services), i.e. from 16% in 1995 to 21% in 2008, which points to increasing involvement of domestic services industries in international trade flows.

The country's still modest weight in global services exports (0.3%) illustrates its relatively low export capabilities as compared to the old EU member states and even some of the NMS (e.g. Poland accounts for 0.9%, the Czech Republic or Latvia for 0.5%). This is in sharp contrast with Romania's size and potential. Nevertheless, a continuous increase of the country's participation in global services trade may be observed, with its share in world exports rising from 0.1% in 1995 to 0.3% in 2008.

Figure 1 illustrates the export volumes of Romania and selected NMS¹ in 2007 (latest year available) compared to 1995. With services exports growing more dynamically than in the EU and the world over the analyzed period, Romania managed to narrow the gap relative to the major NMS traders (Poland, the Czech Republic and Hungary), and ranked fourth in 2007 both on the export and import side.

As suggested by the ratio of total exports and imports to GDP, Romania (12%) is relatively less specialized in services trade than the EU-15 average (22%), but fares quite well when related to the global level (11%). Along with Poland (13%), Romania shows the lowest degree of specialization among the NMS, while Estonia (35%) and Bulgaria (28%) the highest (Ghibuțiu and Poladian, 2008).

Figure 1: Exports of services in Romania¹ and selected NMS², in 2007 versus 1995 (EUR bn)



Notes: ¹ 2007 Eurostat data for Romania (RO) do not coincide with 2007 data in Table 1, the latter being revised; ² See Footnote 1.

Source: Calculations based on Eurostat data (Ghibuțiu and Poladian, 2008).

However, quite interesting conclusions may be drawn when looking into the evolution of Romania's trade in services in the more recent years.

Firstly, services exports increased spectacularly over the 2004-2008 period, with their growth (CAGR) more than doubling compared to that of goods (32% and 15% respectively). Services imports grew also faster than imports of goods (26% and 21% respectively), but remained significantly below the growth of services exports (Table 2).

¹ Throughout the analysis, the selected NMS comprise the eight countries from CEE which became EU member states on May 1st 2004, i.e. Hungary (HU), the Czech Republic (CZ), Poland (PL), Slovakia (SK), Slovenia (SI), Latvia (LV), Lithuania (LT) and Estonia (EE), as well as Bulgaria (BG) that acceded on January 1st 2007 along with Romania (RO).

Table 2: Growth (CAGR) of Romania's exports and imports of goods and services, in 1995-2008 (%)

	1995-2008	1995-2000	2001-2008	2004-2008
Goods				
Exports	14.0	13.0	14.9	15.4
Imports	16.2	12.3	18.3	20.9
Services				
Exports	16.9	10.5	21.3	31.8
Imports	14.2	9.0	18.6	26.2
Offshorable services¹				
Exports	33.7	40.2	30.8	47.6
Imports	17.6	18.1	19.2	25.9

Note: ¹ See Section 3.2 for the specific services categories covered under this heading.

Source: Own calculations based on BoP Statistics, National Bank of Romania.

Secondly, the rapid expansion of services exports has been mainly driven by the “other services” component of services trade. Business services subsumed under this BoP heading recorded the highest growth over 2004-2008 (39%), and their share in total services exports increased from 43% in 2004 (29% in 1995) to 54% in 2008 (Table 3). This is a remarkable qualitative shift in the composition of Romania's trade in services and points to a highly dynamic process of structural adjustment. In the 1990s, the structure of services flows still reflected the inheritance of the past economic regime. It was characterized by the predominance of traditional services – such as transport and related services, as well as travel – and the quite low share of advanced business services.

Table 3: Structure and dynamics of Romania's trade in services, by main components, in 2004-2008 (%)

	Share of the main components in total services trade (%)					CAGR (%)
	2004	2005	2006	2007	2008	2004-2008
Credit , of which:	100.0	100.0	100.0	100.0	100.0	
Transport	43.1	29.0	26.8	27.3	30.8	21.1
Travel	14.0	20.8	18.5	16.9	15.5	35.2
Other services	42.9	50.2	54.7	55.8	53.7	39.4
Debit , of which:	100.0	100.0	100.0	100.0	100.0	
Transport	38.7	35.6	34.3	37.1	33.3	21.6
Travel	13.9	16.9	18.5	17.3	18.6	35.7
Other services	47.4	47.6	47.1	45.5	48.1	26.7

Source: Own calculations based on BoP Statistics, National Bank of Romania.

Thirdly, the outstanding growth performance of services exports over 2004-2008, combined with the relatively slower expansion of imports triggered an important positive shift in Romania's services balance, which seems to be sustainable for the first time since 1990 (Table 4).

Table 4: Romania's services balance, by main components, in 2004-2008 (EUR million)

Years		Total services, of which:	Transport	Travel	Other services
2004	Credit	2,903	1,252	406	1,245
	Debit	3,116	1,206	434	1,476
	Net	-213	46	-28	-231
2005	Credit	4,104	1,189	852	2,062
	Debit	4,448	1,583	750	2,116
	Net	-344	-394	102	-54
2006	Credit	5,587	1,498	1,034	3,055
	Debit	5,583	1,916	1,035	2,632
	Net	4	-418	-1	423
2007	Credit	6,931	1,892	1,171	3,868
	Debit	6,454	2,397	1,119	2,938
	Net	477	-505	52	930
2008	Credit	8,751	2,694	1,358	4,699
	Debit	7,915	2,637	1,473	3,805
	Net	836	57	-115	894

Source: Own calculations based on BoP Statistics, National Bank of Romania.

Unlike all the other NMS, Romania recorded chronic deficits in services trade since 1990, which have largely contributed to the structural deterioration of its balance of payments along with the huge and continually rising deficits in goods trade. However, 2006 appears to be a turning point as the modest net exports worth EUR 4 million have been followed by more substantial trade surpluses, i.e. EUR 477 million in 2007 and EUR 836 million in 2008.

Finally, another notable change can be observed when looking at the specific contribution of the three components to Romania's services balance. While "other services" have fuelled substantially and constantly the structural deficits in total services trade during the last decade, the net exports worth EUR 423 million in 2006 represented a very premiere. This trend reversal appears to be durable, as the respective net exports more than doubled in 2007 and 2008 (Table 4).

Hence, we may conclude that Romania's trade in services has clearly accelerated in the more recent years. Moreover, the remarkable expansion of services trade has been accompanied by favourable developments in terms of composition and performance, which have to be put on account of the highly dynamic "other services" component of trade. Further, it may be assumed that the outstanding export performances in business services included in this component are largely related to enhanced offshoring activities within the Romanian economy. The arguments underpinning this assumption are arising from the more detailed analysis of the "other services" component of services trade, which is supposed to cover those services categories which are prone to be offshored.

However, before moving to the investigation of Romania's trade flows through the lens of services offshoring it is important to provide a brief overview of the main conclusions emerging from the literature on this phenomenon, and also to clarify some related conceptual and methodological aspects.

3. What Is Services Offshoring?

3.1. Services offshoring: a new form of globalization

In the last couple of years, services offshoring ranked among the most hotly debated topics in the context of international economics. The highly dynamic developments revolving around this phenomenon widely focused the interest of both economists and politicians, and the public at large.

Despite ranking high on the media and policy agendas worldwide, knowledge about the complex issues involved in the phenomenon of services offshoring is still scarce. Research on this topic continues to be greatly hampered not only by lack of adequate official data and statistical instruments to quantify its real size and impact, but also the lack of an international consensus on what offshoring actually means.

In the absence of a commonly agreed definition of "offshoring" in the public debate or in the economic literature, the phenomenon has been frequently described as the process of relocation of services activities/functions to lower cost locations outside national borders.

From a microeconomic perspective, services offshoring is arising as an attractive business model to which companies increasingly resort in response to intensified global competition. By focusing on core activities and by outsourcing other tasks, firms may consolidate or enhance their competitiveness through specialization and more efficient organization, cost cutting, economies of scale and spreading risks. Essentially, offshoring of business processes by firms is not an entirely new phenomenon. Manufacturing firms have sourced components from other countries for many years. Also outsourcing of business processes within a country has existed in some form for centuries (UNCTAD, 2004; Kirkegaard, 2005). New are rather the forces which are driving offshoring in the present global economic setting, and subsequently its dynamics and scope.

From the perspective of the world economy, services offshoring appears to be a relatively new form of globalization, driven by mutually reinforcing technological,

economic, institutional and organizational factors. It reflects an ongoing shift in the patterns of production and trade in services. It may be seen as a particular form of trade and FDI, enabled by increased tradability of services due to rapid advances in ICT in conjunction with liberalization of trade and FDI flows.

While the gains from services offshoring at company level are straightforward, i.e. enhanced competitiveness – due to lowering costs, increases in productivity and quality of services – its impact from a macroeconomic perspective is, however, less clarified. Hence, its implications in an economy-wide sense continue to be a subject of controversy. Especially its potential disruptive effects on employment in the developed countries continue to fuel concerns among policy makers and the broader public.

The new international division of labor emerging under the form of services offshoring is basically regarded as a win-win game. There is large agreement among economists that economic benefits – the outcome of specialization based on comparative advantage – are accruing to participants at both ends of the process. In conformity with the premise of standard economic theory, the efficiency and productivity gains achieved through offshoring in the long-term should enhance the overall growth and employment opportunities of both the home and host economies, provided they are capable to adjust. Yet it is also widely admitted that fast changes in international specialization may lead to tensions (especially due to displacement of workers), and may imply adjustment costs that governments, enterprises and individuals will have to bear. Just like all forms of international trade – whether in goods or services – offshoring is likely to bring about both winners and losers, with the key question for policy-makers being the design of proper policies to ensure that the former compensate the latter (van Welsun and Reif, 2006a).

3.2. Concepts, terminology and methodology

From the great variety of concepts used currently to describe the analyzed phenomenon we have opted for “offshoring” as the term most popularly used in the economic literature.² Further, we have adopted the definition provided by the OECD (2004, p. 89), according to which “services offshoring” is the international sourcing of *IT and ICT-enabled business services*, such as customer services, back-office services and professional services.³ It may take two forms, namely:

(1) “*international outsourcing*”, meaning the sourcing of a service from an independent supplier located abroad (i.e. unaffiliated trade); and

² There is no commonly accepted terminology for describing the phenomenon. The terms used for its conceptualization differ greatly across authors, even though their meanings are often very close. Offshoring, outsourcing, offshore/international outsourcing, cross-border outsourcing, insourcing, inshoring, nearshoring, externalization, relocation, delocalization, production fragmentation, global sourcing, and global supply chain management – are some of the most frequently used terms.

³ IT services encompass computer and related services. Cross-border ICT-enabled services (or *business process outsourcing* – BPO) are services provided from one country to another over telecommunication or data networks, and are either externally contracted or provided by a remote subsidiary of the same country.

(2) “*captive offshoring*”, meaning the sourcing of a service from an affiliated firm abroad (i.e. through FDI, or affiliated trade).

Table 5 provides a rough picture of the most common offshored service activities. It reveals that the boundaries between IT and ICT-enabled business services (or *business process outsourcing* – BPO) are practically impossible to draw as the individual categories are often combined. Furthermore, there is in general no correspondence between the services that are being traded and existing statistical classifications of services. Hence, trade in offshorable services is hard to define and to quantify (Mattoo and Wunsch, 2004).

Table 5: Synopsis of offshored services

1. Information technology (IT) services (computer and related services)	
Software development and implementation services, data processing and database services, IT support services, application development & maintenance, business intelligence & data warehousing, content management, e-procurement and B2B marketplaces, enterprise security, package implementation, system integration, enterprise application integration, web services (Internet content preparation, etc.), web-hosting and application service providers, etc.	
2. Business process outsourcing services (BPO)	
2.1. Customer interaction services (typically performed by <i>call/contact centres</i>)	Technical and customer support/advice, after-sales services, customer relationship management, employee enquiries, claims enquiries, reservations for airlines and hotels, subscription renewal, customer services helpline, handling credit and billing, telemarketing and marketing research services, etc.
2.2. Support services (back-office operations, typically performed by <i>shared services centres</i>)	Data entry and handling, data processing and database services, medical transcription, payment services, financial processing (financial information and data processing/handling), human resource/payroll processing, warehousing, logistics, inventory, supply chain services, ticketing, insurance claims adjudication, quality assurance, mortgage processing, etc.
2.3. More independent professional or business services	Human resource services (hiring, benefit planning and payroll, etc.), financial and accounting services (including auditing, bookkeeping, taxation services, etc.), advertising, R&D, marketing, product design and development, architectural and engineering services, etc.

Sources: Mattoo and Wunsch (2004, p. 4); UNCTAD (2004, p. 159).

As there are no readily available statistical indicators for measuring the scale and dynamics of offshoring and its effects on trade, one has to rely on *indirect measures*, which serve as proxies. In order to gauge the phenomenon, BoP trade statistics will be used to identify emerging trends in the evolution and composition of Romania's trade in services, which might be put on account of increased offshoring. Starting point of the analysis is the assumption that a typical consequence of a decision taken at the level of a firm located abroad to offshore services to Romania should be a rise in the country's exports of services as it becomes the new location from which the services supplies are sourced thereafter.

Following a widely applied methodology internationally,⁴ two service categories will be used to approximate the potential impact of offshoring on Romania's trade in services, namely: (1) "*computer and information services*" (CIS), and (2) "*other business services*," (OBS).⁵

The sum of the two BoP categories is assumed to cover the great variety of services that may potentially be affected by offshoring. Even though there are major pitfalls in the interpretation of trade data by linking them to different offshoring activities, BoP data have the advantage to help us highlight the dynamics and relative size of offshored services within Romania's total trade in services, and also allow us the calculation of net exports. However, given the shortcomings of trade statistics the interpretation of the results deriving from this kind of empirical exercise is liable to caveats.

4. Romania's Trade in Offshoring-related Services

4.1. How big are Romania's offshorable services flows?

In this section we aim to investigate if there is a rise in services offshoring in recent years as featured by Romania's BoP data on "other services" over 2004-2008. This BoP item covers the wide variety of business services which have been transformed due to ICT, and hence the type of services which bear relevance for offshoring, i.e. the "offshorable" services. These encompass "computer and information services" (CIS) and "other business services" (OBS), as defined in Section 3.2.

⁴ See, *inter alia*: OECD (2004), Amiti and Wei (2004), WTO (2005), Stare and Rubalcaba (2005), van Welsum and Reif (2006a; 2006b).

⁵ The "other business services" (OBS) category represents the sum of the following items of Romania's BoP: merchanting and other trade-related services; operational leasing services; other services (i.e. legal, accounting, management consulting, and public relations; advertising, market research, and public opinion polling; R&D; architectural, engineering, and other technical services; agricultural, mining; other business services).

Table 6: Romania's trade in offshorable services¹, in 1995-2008

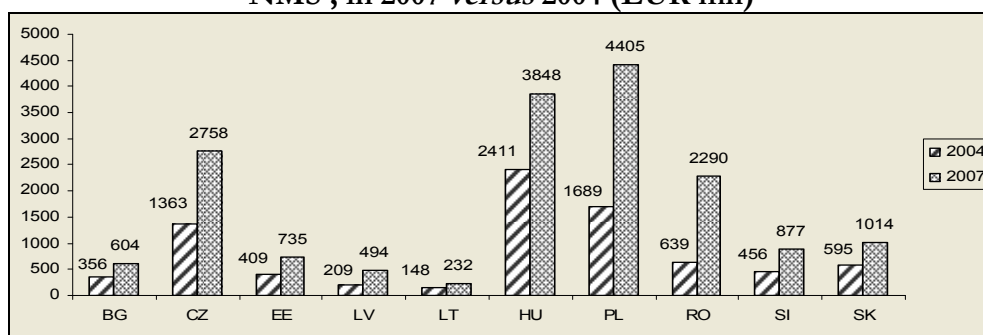
	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Offshorable services (CIS+OBS) – EUR million										
Credit	69	374	458	624	688	631	1,123	1,690	2,358	2,994
Debit	250	575	606	709	704	822	1,134	1,375	1,481	2,067
Net	-181	-201	-148	-85	-16	-191	-11	315	877	927
Share in total services trade (%)										
Credit	6.0	19.7	20.2	25.1	25.8	21.7	27.4	30.2	34.0	34.2
Debit	17.8	26.5	25.3	28.7	27.0	26.4	25.5	24.6	22.9	26.1

Note: ¹ Offshorable services as defined in Section 3.2.

Source: Own calculations based on BoP Statistics, National Bank of Romania.

As seen in Table 6, the cumulative exports of offshorable services (CIS + OBS) amounted to EUR 2,994 million in 2008. Within this aggregate, exports of OBS represented EUR 2,397 million, while exports of CIS were notably lower, i.e. EUR 597 million. The corresponding cumulative imports stood at EUR 2,067 million in 2008 (out of which OBS represented EUR 1,563 million, and CIS EUR 504 million).

According to Figure 2, the recorded flows (in value terms) may seem rather small when compared with some of the NMS, particularly Poland and Hungary, but the growth of Romania's exports is quite impressive.

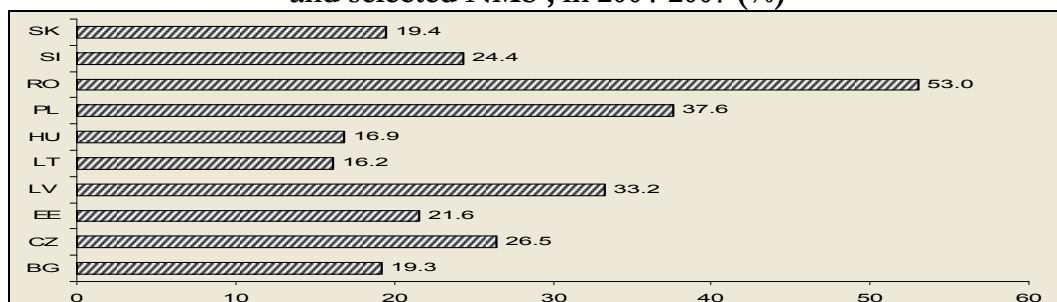
Figure 2: Exports of offshorable services¹ in Romania² and selected NMS³, in 2007 versus 2004 (EUR mn)

Notes: ¹ Offshorable services as defined in Section 3.2; ² 2007 Eurostat data for Romania (RO) do not coincide with 2007 data in Table 6, the latter being revised; ³ See Footnote 1.

Source: Calculations based on Eurostat data (Ghibuțiu and Poladian, 2008).

Indeed, Romania's offshorable services exports (CIS + OBS) accelerated spectacularly over the 2004-2008 period (see Table 2). Their growth (CAGR) peaked at 48%, surpassing considerably that of both total services exports (32%) and goods exports (15%). Growth on the import side (26%) lagged markedly behind the expansion rate of exports, being roughly in line with that of total services and goods.

Figure 3: Growth (CAGR) of offshorable services¹ exports in Romania and selected NMS², in 2004-2007 (%)



Notes: ¹ Offshorable services as defined in Section 3.2; ² See Footnote 1.

Source: Calculations based on Eurostat data (Ghibuțiu and Poladian, 2008).

As illustrated by Figure 3, Romania ranked first among the NMS in terms of offshorable services exports dynamics over 2004-2007, followed by Poland and Latvia. Yet, when contemplating this strong export growth, it is important to keep in mind that Romania, like many other countries worldwide with similar export dynamics and often mentioned as low-cost locations for offshored services, is growing from a very low level, and some of the rapid growth may be explained by economic development.

Owing to the extraordinary export growth performance, the combined share of the two offshorable services categories in Romania's total services exports increased from 22% in 2004 (6% in 1995) to 34% in 2008 (Table 6). Comparatively, the respective share represented 36% for the EU-15 in 2007.

Finally, noteworthy changes occurred as regards the contribution of the offshorable services categories to the country's trade performance. At the aggregated level, these services have fuelled permanently Romania's chronic services deficits until 2006, when they generated for the first time net exports of EUR 315 million, which augmented to EUR 877 million in 2007 and EUR 927 million in 2008 (Table 6). Actually, they have contributed significantly to the first major surpluses recorded by the "other services" item of the BoP after 1990 (Table 4). It follows, that the favourable trend reversal in terms of overall services balance is largely attributable to net exports generated by the offshorable services categories.

From the above analysis it may be concluded that trade in offshorable services has clearly gained momentum over 2004-2008, which might reflect highly dynamic offshoring activities hosted by the Romanian economy. Moreover, the remarkable expansion of offshorable services exports has been accompanied by favourable developments in terms of net trade.

While these findings are supportive of the supposition that offshoring has generated more trade flows in Romania, not all trade in these services categories is related to this process, and nor is it possible to distinguish which part of it is (van Welsum and Reif, 2006a). However, the resulting trade might be seen as an upper limit for the estimated value of offshored services (WTO, 2005).

4.2. How Competitive Is Romania?

A combination of cost-related and non-cost factors, including relatively low labor costs, availability of highly skilled and multilingual workforce, modern ICT framework, is behind Romania's intrinsic advantages as desirable target of companies' offshoring decisions. Geographical proximity to EU-15 markets, linguistic traditions, historical ties and cultural affinity are further enhancing its competitive advantage over popular low-wage locations in Asia or other parts of the world. There is no doubt, however, that EU accession is the primary driver of Romania's current attractiveness, even though full EU membership will bring about an erosion of its cost advantages in the long-term.

The key question to be answered in the present chapter is how well is Romania suited to cope in the rapidly changing environment where the new competitors that have emerged across the world (e.g. India, China, Malaysia, Thailand, Brazil, etc.) hold a broad array of comparative advantages in high value-added services industries. Since the emerging economies and Romania share specialization patterns in areas of services trade with similar skill and factor intensities, the former are strong competitors for the latter. But apart from competition from low-wage economies, Romania is also confronted with growing competitive pressures from the other NMS in the context of EU enlargement. Moreover, it may be argued that competition across the NMS is even more pronounced, as they are competing in the same range of services, and present large similarities in respect of location-related advantages. Mainly for this reason, but also due to lack of comparable data, our attempt to evaluate Romania's competitiveness in the global offshoring market focuses on the country's competitive strength relative to the NMS grouping.

What follows is an assessment of Romania's competitiveness based on Eurostat data, by applying the classic Balassa "revealed comparative advantage" (RCA) to the offshorable services categories (Balassa, 1965). The RCA index is defined as the ratio of Romania's offshorable services exports to its total services exports divided by a similar ratio for the NMS as a group. An index above unity indicates that the country is relatively specialized in these services, a result which is interpreted as an indication of comparative advantage.

Table 7: RCA indices in offshorable services¹ for Romania and selected NMS², in 2004 and 2007

		BG	CZ	EE	LV	LT	HU	PL	RO	SI	SK
CIS + OBS	2004	0.57	0.95	0.97	0.78	0.40	1.70	0.81	1.21	0.89	1.08
	2007	0.56	0.98	1.01	0.79	0.33	1.49	0.90	1.36	0.93	0.91
CIS	2004	0.33	0.66	0.66	1.19	0.62	1.64	0.63	1.99	1.37	1.55
	2007	0.58	1.24	1.00	0.84	0.20	1.33	0.64	2.00	0.83	0.89
OBS	2004	0.61	0.99	1.02	0.73	0.37	1.71	0.83	1.12	0.83	1.03
	2007	0.55	0.94	1.01	0.79	0.36	1.51	0.94	1.27	0.94	0.92

Notes:¹ Offshorable services, CIS and OBS as defined in Section 3.2;² See Footnote 1.

Source: Calculations based on Eurostat data (Ghibuțiu and Poladian, 2008).

Table 7 displays the resulting RCA indices for 2004 and 2007 both for total offshorable services and the two components, which are assumed to reflect Romania's competitiveness relative to the NMS as a group. Accordingly, it may be observed that Romania (along with Hungary and Estonia) reveals a comparative advantage in total offshorable services in 2007, and is experiencing an upward move compared to 2004.

However, it is important to note, that competitiveness indicators calculated on the basis of cross-border trade flows as measured by BoP data are less relevant in services than in goods given that there are other three modes of supplying services internationally under the GATS framework, i.e. consumption abroad, commercial presence and movement of natural persons,. Hence, the results of the above exercise should be interpreted with due caution.

5. Romania's Increasing Attractiveness as Host Country for FDI-related Offshoring

As mentioned above, not all trade in the offshorable services categories estimated on the basis of BoP statistics is related to the offshoring phenomenon, and nor is it possible to distinguish which part of it is. Further, both forms of offshoring, i.e. *international outsourcing* (on a contractual basis) and *captive offshoring* (through FDI) are presumed to appear in the BoP trade statistics, as unaffiliated trade and affiliated trade respectively. However, the current BoP statistics do not permit us to divide cross-border transactions between affiliated and non-affiliated firms.

The argument that offshoring under both forms has accelerated over the last years, and generated increased services exports is backed up not only by BoP trade statistics but also by a large amount of company-level data. For instance, survey-based data on Romanian IT services companies provide ample evidence for the rapid pace of *international outsourcing* over 2006-2008 as compared to the early 2000s.

On the other hand, FDI plays an important role in services offshoring.⁶ According to estimates by McKinsey&Company (2005), over two-thirds of all services offshoring globally takes place under the form of *captive offshoring*, i.e. through FDI. But, similarly to trade, FDI statistics are not adequately equipped to measure offshoring, and hence to determine what share of FDI is directly linked to it.

Services-related FDI inflows into Romania have followed broadly the trend of growth in services worldwide and in the CEE region itself, but with a notable delay. While in the largest FDI recipient countries – Poland, the Czech Republic and Hungary – services had already become dominant in FDI in the late 1990s, the structural change in Romania has been considerably slower, with manufacturing

⁶ In the FDI literature, offshoring is identified as efficiency-seeking FDI, as opposed to market-seeking FDI. Alternatively, export-oriented subsidiaries are set up by vertically integrated multinational companies in a host country with the aim to lower production costs or to seek, secure and diversify resources (Hunya and Sass, 2005). As services become more open to efficiency-seeking FDI, information-intensive services can be fully subjected to the international division of labor and hence integrated international production.

retaining a much higher share of FDI.

FDI in business services played a relatively limited role until recently, and Romania's involvement in export-oriented FDI projects was insignificant. The results of an examination by UNCTAD (2004) of the number and destination of TNC projects worldwide in export-oriented services in 2002-2003 may be used as a proxy to illustrate the country's low attractiveness for offshored services. According to this quantitative assessment, TNC projects related to services offshoring in the CEE over the respective period have been concentrated in Hungary (26 projects), the Czech Republic (20 projects) and Poland (15 projects). Romania received only 7 projects, out of which 4 concerned *regional headquarters*, 2 projects *IT services*, and 1 project *call/contact centre services* (front-office services). Very interestingly, no project related to *shared services centres* (back-office services) went to Romania in the respective period, while Hungary received 7, the Czech Republic 6 and Poland 5.

Unfortunately, there are no comparable data on global TNC projects in export-oriented services for the more recent period, when Romania's offshorable services exports increased significantly according to BoP data. Yet we may get some relevant insights into the dynamics and extent of offshoring-related developments from combining official FDI statistics and alternative sources of information.

5.1. What do the official FDI statistics tell us?

The highly dynamic FDI-related developments in the last years suggest a notable rise in Romania's attractiveness as target of offshoring decisions by TNC, and support the view that captive services offshoring has also gained momentum compared to the early 2000s.

The outstanding growth of FDI inflows over the recent years has no precedence. Average annual FDI inflows increased over 4.7 times during 2004-2007 as against 2000-2003. After the turnaround in 2004, FDI rose sharply and reached its highest level ever in 2006 (EUR 9.1 billion), being followed by FDI inflows worth EUR 7.3 billion in 2007 and 9 billion in 2008, according to data by the National Bank of Romania (NBR, 2009). As a result, Romania's total inward FDI stock rose to EUR 47.2 billion in 2008, equivalent to a 3 times increase compared to 2004.

It may be argued that at least partially the increased amounts of FDI are attributable to enhanced offshoring activities unfolding between Romania and companies from the EU and the rest of the world. The sheer fact that over 80% of Romania's inward FDI stock is accounted for by investors originating from the EU is indicative of the high level of corporate integration and intense offshoring activities between the country and the old EU member states.

Further, changes in the industrial composition of Romania's inward FDI stock over the 2004-2008 period point to intensified services-related FDI inflows. Available data on the sectoral breakdown of FDI stock reveal an expansion of TNC in the services sector, and particularly in business services. While manufacturing still accounted for 48% of Romania's total FDI stock by the end of 2008 (down from 56% in 2004), the cumulative share of services industries augmented from 43% in

2004 to 51% in 2008. Moreover, business services – which cover those areas that are prone to offshoring, including computer activities, R&D, and other business activities – increased the respective share from 17% in 2004 to 26% in 2008 (National Trade Register, 2004; 2009).

The above figures provide support for the view that increased amounts of FDI directed towards business services might be attributed to intensified offshoring. However, these figures alone do not offer any point about the current level of FDI that is directly related to services offshoring. Therefore, to take a step further our investigation, we provide some additional information from alternative sources, both official and private.

5.2. What do the alternative sources tell us?

A clear evidence that the recent upsurge in FDI flows went hand in hand with the dynamic expansion of captive offshoring is provided by The Romanian Agency for Foreign Investment (ARIS), which is responsible for monitoring major FDI projects and providing consultancy to foreign investors.

According to ARIS (2007), out of the total 24 FDI projects assisted and monitored during 2006 (with EUR 470 million overall investment value and 6,060 new jobs), 5 projects involved offshored services centres set up in Bucharest by Hewlett Packard, Microsoft, General Electric, Infineon and Wipro. These projects represented 21% of the total number of successful projects monitored by ARIS in 2006, and accounted for 32% and 45% of the total investment value and new jobs, respectively. These figures are all the more relevant as out of the 21 FDI projects assisted and monitored by ARIS during 2004-2005 (with EUR 471 million total investment value and 11,655 new jobs) none was related to services offshoring.

Additional information confirming the steady rise of captive offshoring over the recent years in Romania comes from company-related media reports, which remain basically the main source for monitoring the real trends in offshoring activities. Even a snapshot on media information reveals the surge of offshoring-related FDI projects in Romania since 2006, and the presence of several global players on the local offshoring market, including the top 10. For instance, during the first six months of 2006 only, three major global players set up almost simultaneously their business process operation centres (BPO) in Bucharest, namely Hewlett-Packard, Oracle and Microsoft.⁷ The total number of BPO-related FDI projects that have become operational in 2006 alone amounted to 6, which is a testimony to the country's increasing attractiveness (IDC, 2007). This is all the more relevant as out of the 7 offshoring-related FDI projects oriented towards Romania in 2002-2003 (as revealed by the UNCTAD assessment mentioned above) none concerned shared services centres.

⁷ Actually, foreign companies' interest in the Romanian market has become evident particularly since 2006, when Computer Generated Solutions (CGS), the American group specialized in IT services outsourcing, acquired the largest local company (Easy Call).

According to various media reports, offshored services centres continued to grow at an astonishingly rate also during 2007-2008, and Romania established itself as a prime location for offshored services, particularly for clients based in Western Europe and the United States. But call/contact centres that provide customer interaction services have been also springing up steadily. By mid-2008, their number reached 250-300, rising by 10-20 units per year. The market for call centres was evaluated at EUR 70 million in 2007, and EUR 120 million in 2008 (EUR 30 million in 2006). According to XL World, a major player, it is likely to grow by 500% in the next five years.

It is also noteworthy that companies providing IT and BPO services have been the most active employers in the Romanian economy between 2006 and 2008, with their rate of recruitments being faster than in any other traditional industry.

Professionals from the offshoring business expect the local market (BPO and call centres) to expand significantly in the near future. According to estimates (released in mid-2008), its size will reach EUR 350-500 million by 2013. This seems to be in line with the argument put forward by Hunya and Sass (2005), according to which the scope for further expansion of efficiency-seeking FDI in the NMS is still wide. Actually, most of the TNC active on the Romanian market started as market-seeking FDI already in the 1990s, and expanded later into efficiency-seeking FDI, including export-oriented projects.

6. Concluding Remarks

Over the past few years, Romania's trade in services has recorded outstanding growth rates, particularly on the export side. Moreover, the dynamic expansion of trade flows has been accompanied by an accelerated pace of structural changes.

The findings of the paper back up the view that the remarkable export growth over the 2004-2008 period, coupled with the favourable shifts in the structure and performance of services trade has been largely driven by globalization, i.e. enhanced offshoring activities hosted by the Romanian economy.

Piecing together the scattered information derived from official statistics and private sources, our empirical work provides clear evidence that offshoring has gained momentum in Romania compared to the early 2000s, under both its forms: international outsourcing and captive offshoring. Its findings also confirm media reports and projections put forward by international consulting companies on the country's growing attractiveness as location for companies' international organization of production.

While notable differences continue to exist between the "old" NMS (like Poland, the Czech Republic, and Hungary) and Romania (traditionally epitomized as a "laggard") in terms of export capabilities in services and competitive strength, a fast catching-up process is discernible in the latter. Moreover, the findings suggest that Romania is stepping forward to seize more and more of the global offshoring business, and is establishing itself as a favourite target of offshoring decisions by companies originating both inside and outside the EU-15.

While cost-related as well as non-cost factors are lying behind Romania's intrinsic advantages as location for offshored services, there is no doubt that its current

attractiveness is associated with accession into the EU. Yet it is also true that full EU membership is likely to bring about an increase in the cost of doing business, and a subsequent erosion of the country's cost advantage. That these trends are already at work is confirmed by A. T. Kearney's (2007) country assessment, according to which Romania's competitiveness in the global services offshoring market diminished in 2007 as against 2005, due mainly to rising costs and lower availability of skills.

Services offshoring like globalization in general brings both economic benefits and costs to the countries implied. The benefits accruing to host countries illustrate the classic gains from trade and specialization: expansion of trade flows, increase of economic activity through the operations of TNC subsidiaries, creation of new jobs, transfer of soft technology, increased competition and higher quality services.

Our findings support the view that Romania has so far benefited from globalization, and the benefits outweighed the costs at least from a trade perspective. Firstly, services offshoring generated more trade, primarily in new and advanced types of services. Secondly, it exerted a positive impact on the composition of services supplied internationally, by expanding the share of high value-added services. Thirdly, Romania's net position in business services moved from chronic deficits to growing surpluses, suggesting that the country is beginning to move up the value-added chain. And last but not least, increased business services exports helped to improve Romania's external financial position. These exports have triggered a historical trend reversal in total net trade in services, by turning structural deficits into surpluses. On the downside, increased offshoring might lead in the long-run to growing services imports and income transfers of TNC to their home countries, bearing additionally upon Romania's already large current account deficit.

Finally, the findings of the paper bring us to the following question: Should Romania try and build competitiveness in trade in IT and ICT-enabled services? Our answer is a definitely "yes". However, the export of services as such should not be seen as the final goal. Such exports are conducive to economic development in a broader sense, because they generate not only international trade and FDI flows as well as new jobs, but are also supporting the competitiveness of the economy as a whole. Due to growing services-intensity of all economic activities, the competitiveness of firms in open economies is determined increasingly by access to low-cost and high-quality business services. As business services are key inputs in all economic activities, and are also major agents for the diffusion of new ICT and skills throughout the economy, they are decisive for upgrading all productive activities. And last but not least, business services exports can improve the international image of Romania and support, implicitly, the country's exports of goods.

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INSOLVENCY IN THE CONTEXT OF THE PRESENT FINANCIAL CRISES – A COMPARATIVE ANALYSES

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Abstract

This paper presents the current trends in the view of various national states and their impact on the application of collective insolvency proceedings, also called bankruptcy procedure in common language, by analysing their main pieces of legal regulation, extremely useful both for specialists as well as for creditors and debtors.

The fact is that thanks to this procedure, businesses which are in a state of financial crisis, either actual or upcoming can be placed under court protection from creditors which results in blocking enforcement and increasing interest and penalties, allowing them a new start through a reorganization of their activities.

Reorganizing the activities of insolvent debtors activity may also be in the interest of creditors, if they cannot obtain sufficient repayment through the debtor's bankruptcy. Thus, requests to open insolvency proceedings by them will appear as a means to preserve their rights and to avoid irreversible deterioration of the situation of the debtor.

On the other hand, an aggressive insolvency procedure may be used by creditors as a means of pressure in order to obtain a quick settlement of their receivables from solvent borrowers acting in a state of panic created by the existence of an application to open a bankruptcy procedure.

And not least, the paper presents how the situation has seriously deteriorated regarding the criteria allowing businesses to apply for an insolvency procedure and the proper use of the benefits of this procedure.

Keywords: bankruptcy, crises, insolvency, insolvability

JEL Classification: K12, K22, K40

1. Insolvency – a crash in corporations life

We are in full financial and economical crises, which affects the number of bankruptcy agents. The informations provided by the National Trade Register Office and National Union of Insolvency Practitioners, give us the right numbers to understand until where the insolvency cases reached: in the first semester of 2009, the number of cases is around 5000 growing up with 50% compared with the first semester of 2008. In the first half of 2009, the cases went up with 70% reaching the number of 12.500, and is appreciating that the number will reach 20.000 by the end of this year.

From the juridical point of view, there is a relevant similarity between natural person and juridical person/corporations in terms of success or failure activity. Both

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types of people, can badly fail in managing their financial aspects, so bad, that to not be able any more to face its debts and to be in insolvency or bankruptcy.

The insolvency managing can be different from a individual to a legal entities, depending on what concept they adopt for them personal law (lex patrie or lex societatis), opting in generally for a special procedure, only in professional commercial cases of failure activities.

The present trend, is to apply insolvency procedure- called, collective procedure on managing the heritage of insolvent persons- whether the insolvent debtor is natural person, legal, trader or private person.

The heritage management of a insolvent person inside of a collective procedure, by objective and professional people, is the only option that the borrower has in order to find solutions for his recovery. This solution has an old tradition in our country, introduced by Calimah Code in 1817, „Civil/Policy Condor of Moldavia Principality”, where, in the annex regarding „Randuiala concursului creditorilor” is regulating the bankruptcy.

The solution mentioned above, was refunded in „Condica comertului” from 1840, then in The Commercial Code from 1887, and then taken over „modern” legislation in Law 85/5.0f April 2006 regarding insolvency.

In our country, the collective procedure is applied only against debtors that doesn't have sufficient funds to pay the exigible debts in money¹, strictly to those that are in insolvency or impending insolvency. From this perspective, the insolvency state is a merits/substance condition of applying collective insolvency proceedings².

An apparent exception to the rule is contained in European legal regulation of cross-border insolvency, from European Regulation 1346/ 29 May 2009 regarding insolvency proceedings.

Based on regulation above, the decision to open a main insolvency procedure issued in another state member of UE, has effects on the Romanian debtor if this possess in his country properties, creditors or an office; this gives the right to open a secondary insolvency procedure, without the debtor to be in insolvency. This situation is not an exception to the rule, giving the fact that the organic status of the debtor is not governed by the Romanian law.

The true exceptions, of the debtor's condition insolvency rule required for the insolvency opening procedures are stipulated in special laws, which are regulating the bankruptcy of credit institutions and insurance companies.

(1) Stanciu D.Carpenaru, Drept Comercial Roman, Editia a VIII a , Ed.All Beck, Bucuresti, 2004, p.583-588 ; Ion Turcu, Falimentul –Noua Procedura- Tratat, Ed.Lumina Lex, Bucuresti, 2003, p.193; G.Ripert/Roblot, Philippe Delebeque/Michel Germain, Traite de Droit Commercial, Tome 2, 16 e edition, L.G.D.J., Paris, 2000, nr.2846, p.836; Yves Guyon, Droit des Affaires, Tome 2 Entreprises en difficultes, Redressement Judiciaire-Faillite, 7e edition, Economica, Paris, 1999, nr.1114, p.132 si autorii acolo citati: Delesalle, Reflexion sur le fait generateur de l'ouverture des procedures collectives, these, Paris I, 1983 s.a.; Cas.III, Dec.nr.175/19 mai 1914, C.Ap. Bucuresti, I, dec.124/21 iunie 1933 in Codul Comercial Annotat, Editura Tribuna Craiova, 1994, p.428;

(2) G.Ripert/Roblot, Philippe Delebeque/Michel Germain, op.cit.p.836; Yves Guyon, op.cit., p.109 ;

2. Insolvency and insolvability

In a new context regarding collective procedure legislation, is a necessary need for a comparative analysis about these two notions that open the causes of collective procedures³: insolvency and insolvability.

Clarification of these two notions (that hypothetical or practical can be incidents), is a must especially in those regulations cases, where only the debtor insolvency is drawing the opening collective procedure.

The distinction, in our country, between insolvency and debtor insolvability⁴ has been made uniform, therefore, both, doctrine and jurisprudence found this as the only cause of the bankruptcy: insolvency or cessation of payments with the categorical exclusion of the debtor insolvability.

„Failure to pay at maturity reflects the trader insolvency. It is distinguished from insolvability, which expresses the financial imbalance of the trader patrimony, characterized by the mainly liabilities over assets.”⁵

„In case of insolvability, the totality of debtor assets are not sufficient to pay all the creditors.”⁶

„Insolvency distinguished from debtor insolvability: while the insolvency is that debtor state which expresses his incapacity to pay the debts at the maturity from missing liquidities, insolvability is a state of financial imbalance of debtor patrimony, where the value of liabilities is bigger than the assets. The judicial reorganization procedure and bankruptcy, occurs in all cases where the debtor is in insolvency, without taking in consideration the ratio between the liabilities and assets of debtor's patrimony.”⁷

„Relevance on judicial reorganization procedure and bankruptcy, has commercial insolvency, because the ratio of patrimonial assets and liabilities cannot be invoked and opposite to the creditor”.⁸

„Regarding bankruptcy, is taken in consideration the cease of payments, and not the solvency or the insolvency, meaning the ratio of liabilities and debtors assets, because there can be cases where it can be declared bankruptcy even if assets surpass the liabilities”.⁹

(³) Mihail Pascanu, *Dreptul falimentar roman*, Ed.Cugetarea, Bucuresti, 1927, p.13; Mircea N.Costin, Angela Miff, *„Institutiile juridice a falimentului evolutie si actualitate”*, Revista de drept comercial, nr.3/1996, p.47;

(⁴) Hans van Houtte, *International Insolvency and bankruptcy law*, The law of international trade, Sweet and Maxwell London, 1995, 10.20,

(⁵) Ion Turcu, *op.cit.*p.13;

(⁶) Yves Guyon, *op.cit.*, nr.1116, p.133;

(⁷) Stanciu D. Carpenaru, *Drept Comercial Roman*, Edition 5, Editura All Beck, 2004, p.586;

(⁸) Appeal Court of Bucharest, commercial court, Decision no.131/1999, *Culegere de practica judiciara in materie comerciale –1999*, p.206-208;

(⁹) Tribunalul Ilfov I, com., 30.07. 1924, *Jurisprudenta Generala* 1925, p.813;

„The suspension of payments is nothing else than the payments of some exigible debts. Whether the liability is bigger or less than assets, the trader insolvency doesn't involve through her self the effective cease of payments.”¹⁰

„Insolvency to not be confused with commercial insolvency(...). While the insolvency means liabilities over assets ($L > A$), commercial insolvency puts the trader in the situation of not being able any more to pay his debts with liquidity (cash), indifferent of the ratio between assets and liabilities.”¹¹

„Also, may be declared bankrupt, tradesmen that are perfectly solvent, if they are in cease of payments.”¹²

Debtor's insolvency as a cause of collective application procedure is a criterion supported by just a few legislations, primarily because of the latest opening procedure in a situation where the debtor cannot recover, followed by the fact that from the beginning is no way to please the creditors and all their claims.

Under Law 85/2006, the cause of insolvency collective procedure application is insolvency.

The debtor's creditors are not interested in how the liabilities and the assets patrimon's debtor is, but only about if the payments of debts are made or not at the maturity.

The simplified procedure (bankruptcy procedure it self) is applied also for the insolvency cases, not only for the debtors insolvency, situation regulated by art. 1, paragraph, letter c, pt. 1 of Law 85/2006¹³, respectivly to the commerciants, legal entities, that do not own any goods in their patromony/heritage.

We believe that, by applying the simplified procedure, the debtor insolvency it will become subsequent to debtor insolvency, this being a criterion of choosing the procedure form of application.

3. Causes of the opening collective procedure – a comparative law analyse

At worl-wide and european level, the particularities of casues of the opening collective procedures, are not in the natural state to bring at the light significant differences about this essential aspect – the bankruptcy application procedure.

3.1. In France, it is used the notion of „payments suspension”(cessation des paiements) as a main cause¹⁴ of recovery and judicial liquidation application procedure¹⁵.

(10) Tribunalul Ilfov I, 13.06.1930, Dreptul, 1930, p.178, in I.Turcu, op.cit., p.14;

(11) Gheorghe Piperea, *„In legatura cu aplicabilitatea procedurii reorganizarii si lichidarii judiciare in unele situatii speciale”*, Revista de Drept Comercial nr.7-8/1996, p.57;

(12) Cas.III, decision no.364/1.03.1929, Revista societatilor si Dreptului comercial, 1929, p.577; M. Jeantin, Paul Le Cannu, op.cit.;

(13) Stanciu D.Carpenaru, V.Nemes, M.A.Hotca, Noua lege a insolventei. Legea nr.85/2006. Comentarii pe articole, Ed.a 2 a, Ed. Hamangiu, 2008, p.20, p.34;

(14) G.Ripert/R.Roblot, Philippe Delebecque, Michel Germain, op.cit., nr.2872, p.855;

The significance of this notion: borrower on the cessation of payments lies in impossibility of his exigible liability to face the available assets (“s’il est dans l’impossibilite de faire face a son passif exigible avec son actif disponible”). Art 88, of Law 845/26.06.2005, under the definition of Commercial French Code art.L631 - 1/2008, held by Ordinance 1345/18.12.2008¹⁶ - is not necessary that the company to be in desperate situation or compromised¹⁷.

The legal definition of payment cessation comes after the jurisprudence manage to give to this notion a big content able to create the distinction between payment cessation and insolvency¹⁸.

3.1.1 Through the modification of French insolvency legislation, made by law 845/26.07.2005 were eliminated situations where cessation of payments were not representing a cause of opening collective procedure.

Thus, until January 1 2006, was able to open the recovery and judicial liquidation collective procedure without fulfilling the condition payments terminations in the following three situations:

- against one who didn’t complet a financial obligation assumed together with the creditors agreement („reglement”);

- against traders that took a company in location management(„location gerante”¹⁹), during a judicial recovery procedure and doesn’t fulfill the obligations stipulated by the assignment plan authorized by the judge; such opening procedure becomes open against debtor without cessation of payments to be;

- when the debtor doesn’t fulfill the financial obligations of the initial plan, the court adjudicate a resolution and open a new recovery procedure²⁰.

The special literature decide to drive off this causes of reorganization and judicial liquidation, considering that this exceptional situations should be repealed, suspension of payments regained the only cause necessary for opening the collective procedure, because the debtor redress is a cure and not a sanction²¹.

(15) Law of 25 january 1985;

(16) Ordonance no.2008-1345 din 18.12. 2008 and Decret no.2009-160 din 12. 02. 2009; Pierre-Michel Le Corre, La reforme du droit des entreprises en difficulte – Comentaire de l’Ordonnance du 18 decembre 2008 et du decret du 12 fevrier 2009, Dalloz, Paris, 2009, p.209; Jean-Pierre Le Gall, Caroline Ruellan, Droit Commercial, Notion Generales, Dalloz, Paris, 2008, p.167;

(17) Yves Guyon, op.cit., nr.1121, p.141; G.Ripert/R.Roblot, Philippe Delebecque, Michel Germain, op.cit., nr.2873; Cass.com., 14 fevrier 1978, Bull.cass., 4, nr.66;22 fevrier 1994, RJDA, 1994, 662 s.a.; Code des procedures collectives- Commente, 5e edition, Dalloz, 2007, p.169;

(18) Michel Jeantin, Paul Le Cannu, Droit commercial. Instruments de paiement et de credit. Entreprises en difficulte, 5e Edition, Dalloz, Paris, 1999, nr.594, p.383; Code des entreprises en difficulte, Commente sous la direction de Corinne Saint-Alary Houin, premiere edition, LexisNexis, Litec, Paris, 2007, p.250;

(19) Jerome Huet, Traite de Droit Civil sous la direction de Jacques Ghestin, Les principaux contracts speciaux, 2 e edition, L.G.D.J., Paris, 2001, n.21116, p.689;

(20) G.Ripert/R.Roblot, Philippe Delebecque, Michel Germain, op.cit., p.855;

(21) Yves Guyon, op.cit., nr.1123 – 3), p.144;

3.1.2. There are no differences between cessation of payments and insolvency, as they are used and understood in English and French law. However, the difference is marked by the notion „available assets”, very important in order to establish with maximum accuracy the existence and the date of payments and commercial societies insolvency. It was considered that „available assets” covers a large „sphere” from both parts, amounts of available money and other assets available to a certain degree of liquidity: real estates on exchange market, commercial effects²².

3.2. In United States of America, bankruptcy is caused by the incapacity of paying creditors (unable to pay its debts as they become due)²³, the debtor having the possibility to notice the first its inability to pay – being the one that in 90% cases requires the bankruptcy application procedure before the payments cessation²⁴. Therefore, the only condition to open the bankruptcy procedure voluntarily is that the applicant to be a debtor.

Debtor's inability to pay debts, gets appreciated by taking into account different criteria: the number and size of debt outstanding, the proportion of unpaid debts and the common payments delays.

3.3. In Germany, The German Insolvency Code (Insolvenzordnung InsO), adopted in October 1994 and entered into effect in January 1 1999, defines insolvency but introduces a new concept for the continental legal system, called – impending inability of payment – as a cause of the opening insolvency procedure.

That for, the opening insolvency procedure is subordinate to the existence of open cause (art 16 InsO), insolvency being the general cause of opening procedure (art 17, paragraph 1, InsO), the debtor being in insolvency if it fails to honor its debts, insolvency being presumed when the debtor ceases payments (art 17, paragraph 2, InsO). In fact, it's about debtors impossibility to face his exigible debts without having any liquidity.

As a general rule, a corporation will be considered unable to pay its debts if doesn't pay around 80-90 % in first 2-3 weeks.

Regarding the inability of impending payments, as a special cause of opening procedure, German law leaves to the borrower the impending incapacity of payment, being able to request the opening procedure when he thinks he will be in impossibility to pay in time his debts. (art 18, InsO).

(22) Yves Guyon, op.cit., nr 1119, p.138; I.Turcu, „Domeniul, scopul si obiectul noului cod al insolventei Comerciantilor”, Revista de Drept Comercial nr.10/2002, p.18;

(23) US Code, Titlul 11, http://www4.law.cornell.edu/uscode/html11/uscode/usc_sec_11_00000101_---.html; Dictionary of Law, Fourth Edition, Oxford University Press, New York, 1997, p.41; Federal Rules of Bankruptcy procedure 2005, <http://www.law.cornell.edu/rules/frbp/>; Elisabeth Warren, Jay Lawrence Westbrook, The Law of Debtors and Creditors, Second Edition, Little, Brown and Company, Boston, Toronto, London, 1991, p.418;

(24) <http://www.senat.fr> - Service des Etudes Juridique (iunie 2004);

German law dedicates another special cause to this opening procedure, applied only for juridical persons: excess of debt (surendettement), that exist when patrimony of the debtor's assets do not cover existing debts.

Therefor, in Germany are causes of the opening insolvency:

- inability to pay;
- impending insolvency;
- debts excess²⁵

3.4. In Italy, article 5 of Royal Decree 267/16.03.1942²⁶, defines insolvency as a state that doesn't execute the obligations or other extern facts, and which demonstrate that the debtor is not able to pay its debts with regularity, state that may trigger the bankruptcy procedure.

In light of this provisions, insolvency state is identified with inability of paing obligations, assumed at the maturity, not being relevant the circumstance of the debtor's patrimony, not even when the assets are over the liabilities²⁷. Through this definition, are indicate the external facts that can proves insolvency, but insolvency can be manifested also through internal facts, known only by the entrepreneur being in the presents of „asimtomatic”²⁸ insolvency that will be at the basis for the debtor opening procedure.

3.5. Spain, through the new law 22/2003 called –competition law- adoptet in July 2003 and came into force in on September 2004, is replacing the old law about bankruptcy procedure, and dedicates a impending insolvency as a cause of the collective opening procedure requested by the debtor.

Until the adoption of 22/2003 Law, spanish law distinguishe between bankruptcy (quibera) and payments suspension (suspension de pagos), but in present defines only the state of insolvency (concurso). Therefor, in view of spanish law on insolvency, the debtor is in insolvency only when he is unable to pay with regularity his debts²⁹ (art 2, paragraph 2, Law 22/09.07.2003, Concursal).

(²⁵) Yves Guyon, op.cit., nr.1108, p.124-125; G.Paisant, “*La reforme de la procedure de traitement du surendettement par la loi du 29 juillet 1998 relative a la lutte contre les exclusion*”, Revue trimestrielle de droit commercial et economique, 1998, 743; Gheorghe Piperea, “*Despre necesitatea extinderii procedurii insolventei la simpli particulari pentru supraindatorare*”, in Probleme actuale ale dreptului bancar, Ed.Wolters Kluwer, 2008;

(²⁶) Royal Decret no.267 of 16.03.1942 - in G.U. no.81 of 6.04.1942, Suplemento Ordinario with it's modification: Law Decret no.35 din 14.03.2005 (Law no.80/14 mai 2005), Law Decret no.5/9.01.2006 and Law Decret no.169 of 12.09.2007;

(²⁷) Barbara Ianniello, Il nuovo diritti fallimentare, Guida alla riforma delle procedure concorsuali, Giuffre, Milano, 2006, p.11;

(²⁸) Francesco Meloncelli, La Conoscenza dello Stato D'Insolvenza nella Revocatoria Fallimentare, Giuffre, Milano, 2002, p.107-115;

(²⁹) Alberto Palomar Olmeda, “*La Normativa de insolvencia en Espana*”, http://ec.europa.eu/enterprise/entrepreneurship/support_measures/failure_bankruptcy/conference/palomar_slides.pdf;

The bankruptcy is presumed to be in debtor's favour when:

- the attempt to recovery a good based on writ of execution failed;
 - there is a suspension of a current payments, and an impound of the debtor assets;
 - in case of fraudulent bankruptcy or precipitated liquidation of debtor assets;
- exist a generalized disrespectful of clear obligations: taxes, social security or salaries.

3.6. In Britain, the legal regulation of insolvency is made by the 1986 Insolvency Act, modified by the 2000 Insolvency Act and by the 2002 Enterprises Act³⁰.

Insolvency Act applies on both, voluntary liquidations as well as the mandatory, and is completed by secondary legislation of Insolvency Rules.

Under british rules, to be insolvent is the same thing with to be bankrupt, and both represents the incapacity to pay the current debts.

Inability to pay debts is confirmed by the following situations:

- a creditor is claiming for the closing of a 750£ (about 500 Euro) debts, and three weeks later he doesn't obtain satisfaction of his claim;
- creditor, holder of a writ of execution doesn't obtain the execution;
- the court is convinced that the asset is less than the debts, by taking in consideration the payments terms.

3.7. In Australia, the collective procedure of insolvency, regulated by Corporation Act of 1993 and modified in 2001, 2002 and 2004³¹, can be triggered at the debtors request, not being necessary that he to be in insolvency, its enough to have just financial difficulties.

Insolvency is presumed if:

- a creditor makes an application in order to receive a payment in 21 days, of a clear and exigible debt, of at least \$2000 Australian (about 1200), but the request didn't produced any effect;
- a creditor, owner of a bond, was not receiving enough;
- a creditor, holding a floating privilege, began implementation of its guarantee, by appointing a impound manager.

3.8. In Canada, insolvency issues are regulated by: Bankruptcy and Insolvency Act, BIA, the Law on the arrangements creditors of Companies'Creditors Arrangement Act – CCAA, the Law on the liquidation and restructuring,Winding-up and Restructuring Act WURA.

⁽³⁰⁾ The acts can be find on: http://www.opsi.gov.uk/Acts/acts2000/ukpga_20000039_en_1;

⁽³¹⁾ http://www.austlii.edu.au/au/legis/cth/consol_act/ba1966142/ and: <http://www.austlii.edu.au/databases.html#cth>;

In view of WURA, a corporation is considered insolvent mainly when³²:

- is unable to pay debts at maturity;
- when all creditors are convened to close a composition;
- when is presented a situation that is in impossibility to meet its obligation;
- when it recognizes its insolvency in any way.

Only WURA is applicable of major financial institutions liquidation including banks, insurance companies.

In view of the BIA³³, a person is insolvent when its obligations amounted to at least \$ 1000 Canadian (about 600 Euro) and when one is in the following situations:

- when, for whatever reason, is unable to honor its obligations as they become due, is on the payment cessation;
- when it ceases to pay current obligations in the ordinary course of business as they become due;
- all his property-by a fair assessment- are insufficient to pay the obligations.

3.9. Legislative guide for insolvency law developed by the United Nations International Trade Law (UNCITRAL) ³⁴ recommends, as the cause of application procedure cessation of payments in respect of the debtor's inability to pay debts and disregarding the „balance criterion” - the liability higher to the assets due to the imprecise and sometimes untimely balance that doesn't indicate the economic value of the company. Guide suggests retention of impending insolvency that allows to anticipate the insolvency³⁵.

3.10. In Romania, the legal regulation of this collective procedure, met a evolution on a traditional line³⁶, using the consistent notion of "cessation of payments" as a cause of the opening of bankruptcy/reorganization and judicial liquidation/insolvency.

„Any tradesman that stopes his payments becomes bankrupt”³⁷, „Any trader who stopped payments on its commercial debt, is bankrupt”³⁸, „The Court will declare bankruptcy if the trader is in cessation of payments.”³⁹

Law no.64 of 22 June 1995 on the reorganization and judicial liquidation procedure break tradition and is using a formula that could provoke controversy:

(32) WURA in: http://lois.justice.gc.ca/fr/showdoc/cs/W-11//20080805/fr?command=home&caller=SI&fragment=Winding-up&search_type=all&day=5&month=8&year=2008&search_domain=cs&showall=L&statutyear=all&lengthannual=50&length=50;

(33) BIA in: <http://lois.justice.gc.ca/fr/showtdm/cs/B-3>;

(34) http://www.uncitral.org/pdf/french/texts/insolven/05-80723_all%20pagesF.pdf;

(35) Jean-Luc Vallens, UNCITRAL 2004 Legislative Guide on Insolvency Law, http://ec.europa.eu/enterprise/entrepreneurship/support_measures/failure_bankruptcy/conference/vallens_speech.pdf;

(36) Mihail Pascanu, Drept falimentar roman, Bucuresti, 1927;

(37) Art.185 - Romanian Commercial Code 1840, in Brosura nr.1/ 1.01.1840;

(38) Art.695 –Romanian Commercial Code -1887;

(39) Art.725 – Romanian Commercial Code - 1940, M. Of., First Part No.194/ 23.08. 1940;

Art1 „this law is for traders, individuals and companies who cannot face to the commercial debts (...)”;

- art.20 „the debtor, who cannot face anymore his debt with available money, can adress to the court an application to be subject to the provisions of this law”⁴⁰.

This formulation has received the same meaning as the classical notion of payments cessation⁴¹, taking into account the provisions of Law 64/1995 that relate specifically to the cessation of payments: „*This condition, as worded, expressing the traditional condition of payments cessation by debtor, required for the application of any collective proceedings against merchants in difficulty*”⁴².

The first modification and supplement of law no. 64/1995⁴³ brought in to attention the notion of „cessation of payment”.

Government Ordinance no.38 of 30 January 2002 to modify Law nr.64/1995 on judicial reorganization and bankruptcy procedure⁴⁴, introduces, as a cause of bankruptcy two notions: the notion of insolvency, which its defines as a „state of the debtor's assets, characterized by the inability obvious of paying the debts with the money available” and the notion of impounding insolvency (which can be invoked only in the debtor's request to open the reorganization and bankruptcy proceedings), without defining this notion.

Use of insolvency in the way that is defined by law no.64/1995 -although criticized for its inaccuracies⁴⁵- can be considered as again because it eliminates the difficulties generate from the analysis of the debtor's behavior towards with the insatisfied creditor, by elimination from interest area of the good or bad beliefs of the debtor.

Therefor, appears to be sufficient the obvious inability of condition for payment debts with money available for the debtor to be in insolvency, in cessation payment⁴⁶.

Law no.149/11.05.2005 modifying Law nr.64/1995 is not changing the definition of insolvency but introduces a presumption of debtor insolvency thre creditors are relieved of the burden of proof the insolvency of their debtor: „Any lender that has one or more uncontested claim, liquids and payable may bring an

(40) Art.20 of Law no.64/22.06. 1995, M. Of., First Part no.130/29.06.1995;

(41) Ion Bacanu, “Inovatiile Legii nr.64/1995 privind procedura falimentului si lichidarii judiciare”, Revista de drept comercial nr.1/1996, p.15;

(42) Stanciu D. Carpenaru, Procedura Reorganizarii si lichidarii judiciare, Ed.Atlas Lex, Bucuresti, 1996, p.37; Mircea N.Costin, Angela Miff, Falimentul, Evolutie si actualitate, Ed.Lumina Lex, Bucuresti, 2000, p.79;

(43) Urgent Government Ordinance no.58 of 27.09. 1997, M. Of., First Part no.265 of 3.10.1997;

(44) M.Of., First Part no.95 of 2.02.2002;

(45) Stanciu D.Carpenaru, op.cit., p.583;

(46) Hans Van Houtte, Intenational Insolvency and bankruptcy law, The law of international trade, Sweet and Maxwell London, 1995, 10.20, in Dumitru Mazilu, “Impactul noilor reglementari privind insolventa asupra schimburilor comerciale ale Romaniei, Proceduri nationale si straine privind insolventa”, Revista de Drept Comercial nr.3/2003, p.163;

application to court against a debtor who is alleged to insolvency due to cessation of payments to it for at least 30 days (...)”- Art. 29, paragraph 1 of Law No.64/1995.

The criticism of the constant changes in the field of insolvency law in Romania appear unjustified in terms of data held by the World Bank according to which, the average age of bankruptcy legislation in the first 10 countries with the best practice in the area: Belgium, Canada, Finland, Ireland, Japan, Republic of Korea, Latvia, Netherlands, Norway, Singapore, is only 6 years, so, legislative efforts of Romania in the direction of bankruptcy regulation entered in international dynamics⁴⁷.

3.10.1. Law insolvency no.85/2006 maintain both, an opening of collective proceedings insolvency and the insolvency of the main lines established by previous legislation defining insolvency as „that condition of the debtor's assets are characterized by insufficient funds money to pay debts (Art.3 paragraph 1).

The last modified to the Law no.85/2006 operated by Law nr.277/07.07.2009⁴⁸, insolvency is defined as: "that state of the debtor's assets characterized by insufficient cash funds available for the payment of the debts certain, liquid and exigible.(Art. 3 paragraph 1).

The novelty of the current legal definition of state regulations is imminent insolvency as a cause of collective opening procedure.

Bankruptcy is impounding when it is proven that the debtor cannot pay the debts due to the maturity, as money funds available at the maturity data. (Art. 3, paragraph .1lit.b of Lawnr.85/2006).

The merits condition of the insolvency proceedings, the objective condition of the state of insolvency of one of the persons expressly provided by law, involves a more extensive analysis than simply defining the notion of insolvency or imminent insolvency, of the two defining elements arising under on mutual interdependence: insufficient funds and failure to pay debts.

Defining elements of insolvency to turn their focus to other aspects of a sum whose legal and regulatory clarification and case-law doctrine may set together, precisely the concept of insolvency.

4. Conclusions

Presentation of this causes applying the collective procedure, as a comparative law analysis, found that *the use of the notion of bankruptcy is abandoned by most national laws*, being replaced with the insolvency of the debtor, but the debtor procedure applicable in insolvency is not called reorganization and bankruptcy proceedings but collective insolvency procedures or recovery and liquidation of collective enterprises.

(⁴⁷) Daniel Daianu, Dragos Pislaru, Liviu Voinea, “*Aspecte ale falimentului in economia romaneasca – perspectiva comparativa si analiza*”, Institutul European din Romania, Bucuresti, 2004, p.15, www.ier.ro;

(⁴⁸) Law No. 277 of 07.07.2009;

This is because it is considered that the use of the word „bankruptcy (faillite, fallimento, quiebra) in Latin origin countries produce negative connotations⁴⁹.

Court of Justice of the European Communities define the collective procedures as „procedures based on state of payments suspension, the debtor's insolvency or loss of credibility, involving an intervention of judicial authority and lead to a compulsory liquidation and corporate property or at least control of this authority”⁵⁰.

Even in the EU Council Regulation of 29 May 2000 is used the concept of insolvency⁵¹: Regulation on insolvency proceedings.

Should be noted that, through this community regulatory is not defined the notion of insolvency⁵², but is trying a uniformity of legislation on enterprises in difficulty together with the resolving conflicts of laws and jurisdiction in bankruptcy matters⁵³.

On the other hand, the distinction between insolvency and the insolvability does not represents a big interest for the legislator; more important is the insolvency of the debtor in order to open a collective procedure, than the insolvability, which is second important and only for a few national regulations.

And not least, when the insolvency debtor-interested in terms of circumscribing the opening of the collective notion of insolvency, is included here.

In all cases, it is essential that if absence of collective procedure causes, as it is regulated by national law applicable procedure, this procedure can not be applied, regardless of the existence, number and amount of money due and unpaid obligations of a company debtor, it is sufficient to prove the existence of the available money to pay off debts, pay of it not being necessary.

(49) European Commission, Final Report of the expert group, Best project on restructuring, bankruptcy and a fresh start, september 2003, p.7, www.europa.eu/entreprise/entrepreneurship/sme2chance/doc/failure_final_en.pdf;

(50) CJCE, 22 fevr.1979, Gourdain c/Nadler, aff.133/78 citata de Diana Ungureanu, op.cit., p.11;

(51) EU Council Regulation No.1346/2000 of 29 mai 2000, J.Of. L 160 of 30/06/2000, p.001-0018, <http://europa.eu.int/eur-lex/> ;

(52) Jerome Carriat, The Council Regulation 1346/2000 on Insolvency Proceedings, http://ec.europa.eu/enterprise/entrepreneurship/support_measures/failure_bankruptcy/conference/carriat_slides.pdf

(53) L.Idot, C.Saint-Alary-Houin, Procedures collectives-Droit communautaire en gestion, J.-Cl.Europe, Fsc.871 citat in Michel Jeantin, Paul Le Cannu, op.cit., nr.555, p.360; Daniela Claudia Muntean, <<Regulamentul European de insolventa – Tema centrala a Conferintei “Dezvoltari Actuale in legislatia falimentului” care a avut loc la Dubrovnik-Croatia, in perioada 16-18 noiembrie 2005>>, in R.D.C. nr.3/2006, p.174; I.Turcu, “Creatia dreptului european al falimentului (II)”, R.D.C. nr.4/2001, p.13 si urm.; Bob Wessels, “Improving the operation of the EU Insolvency regulation”, Revista Romana de Drept al Afacerilor, Supliment, I/2007, p.22;

CONFIDENCE CRISIS AND EXITING NAIVE REALISM THROUGH INTEGRATIVE THINKING

Theodor Valentin Purcărea*

*“My most unpleasant thought
is not knowing what’s left to hope for.”
Octavian Paler*

Abstract

The confidence crisis invites increasing emphasis on social responsibility as a corporate marketing strategy, adopted by management which cannot choose ethical indifference. We need better rules and people, the virtue that follows science heading us down the right path towards overcoming the paralyzing insecurity of economic blood flow and shaping the complexity of current affairs drastically but correctly, in order to develop social virtues and responsibilities. Since globalization is no longer what it used to be, and unfair competition is considered to be one of the causes of distrust in the corporate sector, being on the way towards the knowledge society, we are forced to become integrative thinkers and to identify solutions to the crisis, in a context in which economic concentration resulted in changing the nature of competition, and economists and politicians live in different worlds, it is imperative to harmonize in the identification of good measures of welfare research, understanding what must be adjusted and what mustn't. Travelling through time to the destination where our judges are the future generations, we owe it to them to find appropriate answers in relation to what is authentic in addressing the crisis of faith, who sells what and who is buying it, with the adequate mental model to break the cobweb of this confidence and regain trust. This is all based on an overriding need to produce knowledge for wisdom, maturing interdisciplinary dialogue, becoming architects of conversations generating responsible action, cultivating the ability to work with others with a similar vision.

Keywords: confidence crisis, courage, corporate social responsibility, economist, politician, conversation architect, clash model

JEL Classification: A11, M14, P16

1. Faced with the danger of disappearing faith: hope in the virtue that comes after science

One year ago, we explored the ethical promise – waiting binomial, specific to the business – consumer relationship, making us question not only why these ethical attitudes aren't transforming faster or always in ethical behavior cases, but what is actually happening in the relationship between the two behaviors in the permanent

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pilot workstation, the store¹. On that occasion, we recorded that ethics management is closely linked to social responsibility, but without being identical, the latter becoming a corporate marketing strategy adopted by management which cannot choose ethical indifference, it is the responsibility of industry and commerce to communicate adequately and to ensure consumer comfort, restoring their confidence; as the phenomenon of transformation in attitudes, ethical behavior will amplify ethically, the ethical business - consumer partnership will be recognized as the necessary wave of the sustainable future; robust economy requires individuals to be able to enter into economic cooperation relations of trust with people who are strangers; faced with the danger of confidence extinction, better rules and better people are needed, good business practices resulting from a combination of rules and good people, the formation of the latter (the process of forming the character) taking place well before they reach corporate level; people think and communicate in complex ways that traditional methods cannot capture; it is difficult to affect change in the long term, those prone to unethical behavior, social responsibility and business ethics managers (both philosophies starting at the lower levels of management in an organization) are extremely complex issues.

It is known that virtues are born and developed in the land of senses matched correctly. Virtue, which is science, is doing what is right, thus requiring a substantial effort to go down this path.

Roger Martin, Dean of Rotman School of Management, University of Toronto, made it known in March 2002 that he designed an analytical tool, "The Virtue Matrix"², to help executives think about the pressing issue of the importance of corporate responsibility (treated by Martin in the article as a good or service, thus identifying the forces that limit it, the supply and defining the likely measures one must take to enhance it), understanding what generates corporate responsibility leadership in social sectors. Martin highlights the virtues of this matrix, showing that it provides a conceptual framework to address questions about corporate responsibility, including the following: What drives the market for responsible corporate behavior? What creates public demand for greater corporate responsibility? Why the high globalization anxiety about corporate responsibility? Which are the barriers to increasing responsible corporate behavior? What strengths can be added to the offer of corporate responsibility?

In Martin's opinion, most of the offer of responsible corporate behavior is made at any time by instrumental practice (serving explicitly in enhancing shareholder value), supported by laws and rules or social norms and conventions. This behavior is increased by another set of activities (without guaranteeing the same thing for shareholder value) in which case management motivation is intrinsic (one's

¹ Purcărea, Theodor, Purcărea, Anca - Ethics, the current stake in restructuring commercial relations, *Amfiteatru Economic*, No. 23/2008, pg. 20-29

² Martin, L. Roger - The Virtue Matrix: Calculating the Return on Corporate Responsibility, *Harvard Business Review*, Vol. 80, No. 3, March 2002, R0203E, pp. 5-11

own reasons) and which can generate benefits for society. The difference in depth of civil foundations, considers Martin, can affect the global supply of corporate responsibility, both in positive and negative, but needs more work in calculating the net impact of globalization on corporate responsibility, the outcome apparently being determined by companies in countries with robust civil foundations. As he also points out that: before imposing a requirement for a business, regulators must be sure they have methods that allow assessment of whether the regulations exceed costs (or societal costs diminish the civil foundation); NGO pressure is important, but the most effective pressure on corporate leaders is probably the one they place on themselves; it requires brave, intrinsically motivated corporate leaders, to promote the notion of a global civil foundation from which to work in constantly modernizing businesses, together with governments and NGOs.

2. The full manifestation of uncertainty due to the transformation of the society and the economy

There are views stating that we are in the middle of a transformation moving our entire society and economy slowly but amazingly towards the “consumer economy” (a non-reality, unfortunately bringing along overconsumption with its harsh consequences: social insecurity, global warming, high medical costs, etc.; the grateful public applauds defeat when economists beat the recession and proved that depressions appear as aging; as consumption is two thirds of GDP, the strategy consists of supporting consumption, reducing taxes and / or interest rates; use of government money) to the “Responsible Capitalist”.³ Jack Lessinger argued that: in 2008 “consumer economy” no longer fits the future of our current economic science by failing to serve the main public interest as it once did; economic science transformation predicts a different direction (“responsible capitalism”) to society and the economy of the 21st century; the mission of "responsible capitalism" consists of rectifying damage caused by decades of overconsumption mentalities and entering more responsible public attitudes and values socially (in terms of: infrastructure, environment, education , global warming, the poor, the elderly, the sick), as well as in equitable relocating of the new industries and proper exercise of the socio-economic government functions. Lessinger emphasizes that: the current socio-economic transformation, destroying an old and familiar pattern of demand and supply produces a massive insecurity , paralyzing energy entrepreneurs - "like poison in the blood flow of the economy" - and slowing economic growth, an unsatisfactory period of economic growth will not be corrected until complete conversion is achieved by the new society and economy, and society is slowly changing; the obvious insecurity spiral track in 2008 suggests the likelihood of other depressions before the shaping of the new socio-economy (probably in the next decade).

³ Lessinger, Jack - Transformation, Socioeconomics Inc., Bow, WA, 2008, <http://www.jacklessinger.com/>

In this conception, transformation incurs five statements: depressions aren't overrated, depressions mark over many decades, unlike the recession, depressions are due to insecurity caused by the transformation of the society and economy; although it may not happen, the present transformation is likely to provoke a depression at any time period from 2008 to 2020. Lessinger mentions that: such probability justifies immediate defensive measures, supporting the old socio-economy of the 20th century, today's economic science powering the likelihood of depression; in our myopia, we have failed to appreciate the immense changes over decades and centuries and we may no longer continue to gain in the short-term and lose in the long-term.

Lessinger comes with an exciting array of ideas, starting with a confession: the beginning of his studies in the realm of economic science (University of California, Berkeley), resisted the central assumption of classical economic theory (the unending competition between rational individuals), considering that in every era, human connections, not always rational, rigged the competition and dominated economic activity; he didn't reckon technological innovation as the main economic and social tool of social and economic progress; prosperity returned, every time, with the explosion of new applications, markets opened, inventors awakened to the opportunity and new industries surfaced; through various creative exchanges, we redraw our common mind map; our economic science of transformation doesn't extrapolate, when studying how and why a socio - economy becomes obsolete and identifying the rise of its successor; "new view on the world transforms our society, our economy."

In the mid-eighties, someone born on our lands⁴ focuses attention, among others, on: the urgent need for structural reforms consistent with the general equilibrium almost anywhere in the world (the new message of the third revolution in the social economy, which is considered a more suitable replacement and more accurate for the usual evasive formula consisting of "appropriate or accurate social policies" - which, in practice, nobody knows how to apply to achieve desired goals, in this context, considering that this social evasive formula provides politicians the power to find a nominal legitimacy white card to impose an additional layer of fees on the industrialists and to spend money on a social pie in the sky), arguing that we do not need an open revolution (considered destructive in human terms, not resolving any social issues "per se") or to perpetuate the "status quo" - the modern capitalism, which has proven to be economically, beyond doubt, so productive and also destructive in social terms in the long run; that a social economist is required to primarily conduct a critical examination of the problems of the current regime in any country in order to develop a set of active objectives of the scientific (social virtues) and responsibilities (social troubles); the beginning of February 2009, at the

⁴ Rugina, N. Anghel - "Toward a third revolution in social economics. The pathbreaking role of Walras", Paper prepared for and presented at the 1986 annual meeting of the Association for Social Economics held in New Orleans, LA on December 28-30, 1986, p. 551.

conclusion of the works of the 01.02.2009 World Economic Forum in Davos, we are faced with an interesting picture in the context of the economic crisis crossed: “current confusion” and “lack of new ways to get out.” Chief editor of “Le Monde”, Frédéric Lemaître, reminded us that “we are living a perfect crisis”⁵ (quoting Russian Prime Minister Vladimir Putin), which is the result of a triple phenomenon (quoting the European Central Bank president Jean-Claude Trichet): “the classic end of a cycle of five years of exceptional growth worldwide, due to the extravagant depressed price of raw materials, especially energy, and a financial crisis that has worsened the situation considerably, and broken world trust”. Globalization is no longer what it used to be, and has even become a handicap, thus, for the resumption of growth it is necessary to act immediately, the problem is based on which decisions: short-term (saving the banks?), fast (favoring consumption?), structural (training an environmentally focused economy of tomorrow?). In this context, Lemaître also points out, both J. Stiglitz (“saving banks is risky”) and the Secretary General of the OECD, Angel Gurría (saving the good banks is the worst of all solutions except the others”) and former European Commissioner for competition, Professor Mario Monti, who noted that the states are neither truly Keynes nor partisan to “laissez-faire”, without daring to abandon the old economy (the automobile) and place all bets on the environment and innovation. This reminds me of the letter that professor Monti sent me on 11 November 2002, saying that he appreciates my commitment to build an effective policy in terms of competition. In this welcomed commitment fits the concern for considering corporate social responsibility (CSR) as an integral part of competition policy. Incorrect competition is considered one of the causes confidence in the corporate sector, as examples of the competition data can be incorrect when using big business and market power to obtain lower prices from suppliers (see the phenomenon and that I allowed myself to entitle “shelf war”⁶) or that some manufacturers give discounts for the same products sold to large firms without granting similar discounts to small business when the sales cost does not differ. Moreover, soon after receiving this letter, the European Commission (under the proposal of which, together with the representative of the Federal Trade Commission of the U.S.A., I became co-president of the working group for building the capacity of competition authorities at the International Competition Network - ICN) has proposed a strategy to promote CSR as a contribution to sustainable development, CSR is not considered an objective in itself, but a tool. This strategy was based on three priorities: promoting CSR practices takeover; accounting debate on CSR accounting practices, which was considered a matter of fair competition (competition distortion

⁵ Frédéric Lemaître - Davos face à la mondialisation fragile et à une «crise parfaite», Le Monde, 03.02.2009

⁶ Purcarea, Theodor - Razboiul raftului in economia conversatiei sau dincolo de conversatia cerere-oferta, Economistul, Nr. 2588, Luni, 24 martie 2008, p. 3.

prevention); the role of public policies in promoting CSR (CSR criteria included in government policies to regulate markets, criteria that allow fair competition).

3. Living in paralel worlds, that of economic analisys and political-economic analysis

Years ago, the famous British weekly "The Economist" published an article entitled "The Mysterious Failure of the Economy", consisting in the main assumption that the politicians do today what economists have always asked for but don't do for good reasons: they privatize not to improve the lives of citizens, but to increase their own expenditure. Recently, at the end of December last year, this prestigious publication drew our attention at the end of a suggestive article⁷, as in 1978, Alfred Kahn, one of the economic advisors of U.S. President Jimmy Carter, after being reprimanded by Carter for scaring people by warning them of the possibility of a depression, replaced in the offensive word, as follows: "We are in danger to have the worst banana in 45 years."

If the essence of the market economy is the exchange itself (FA Hayek), exchange is the key concept of marketing (P. Kotler); marketing specialists analyzed what each transaction requires in order to achieve successful trade, its dependence on the existence of a long term relationship. Kotler's mentor, Peter Drucker explains that "the new economy" may or may not materialize, but there is no doubt that "the next society", a knowledge based society will be with us soon. How I am part⁸- or at least like to think so – of the economists that toil on the road to "the next society" (a road dotted with many signs / phrases: "new society", "new reality", "new economy", "the new organization"...), I am still bothered by: as we are on the way to the knowledge based society, our advance is stumbled by a crisis of confidence; our scientific inability (temporary?) to have the opportunity to offer solutions in the operational output of the crisis, knowing that "Science should inform the news, not vice versa. Before we can commit to the public in an informed debate we need scientists to create science" (Rector of Imperial College in London, Richard Sykes, quoted by Rick Nelson, Editor in Chief "Test & Measurement World," in no. 11/1/2006, "Science in the pub". I expressed, along the years, opinions about:

- The real impact in terms of promotion of consumer welfare by encouraging competition and allowing the proper markets to allocate resources adequately; the good functioning of markets implies efficient and undistorted work; however, competition is often misunderstood and easily distorted by "players" acting on the markets, which leads governments to intervene with the necessary regulations (CUTS, "Towards a Healthy Competition Culture ..." Preface ii-iii, 2003);

⁷ Diagnosing depression, Dec 30th 2008, http://www.economist.com/research/articlesBySubject/PrinterFriendly.cfm?story_id=12852043

⁸ Purcarea, Theodor - Economistul la ora dezbaterii reale, in Convorbiri Economice, Clubul Economistilor Brasoveni, 2007

- The existence of a real need (such markets are complex and operate in real time) to consider the centrality of the consumer and understand how markets work, what encourages secret understandings that deceive to undermine competition, what it means to approach the consumer market; what it means to have equitable and efficient allocation, not only allocation effectiveness : “Pareto efficiency can be seen in conjunction with a Nash equilibrium” ("The consumer guide to competition: A practical handbook, Consumers International, March 2003, pp 7-8, 10, 12, 19, 24-25, 31-39);

- the fact that, in substance: “Life itself is a cruel competition ... Now civilization imposes rules (so-called middle class values) that allow some more successful at winning. Imagine yourself in a situation where only the fastest runner will get dinner. After a while, slower competitors will be awfully tempted to ... rather than try ineffectually to win in speed. The same thing goes with the competition in terms of intelligence”⁹ ;

- The position exposed by Hazel Henderson, who, starting from that competition’ benefits to society are widely recognized (boosting innovation, efficiency and driving economic growth and industrialization), we should consider going beyond the outdated theories (“efficient markets, human behavior as rational maximization of competitive individual self-interest”), stating that: “The economy (science, n.n.) is politics in disguise ... In our 21st century, we already see currencies as new weapons of choice, as well as better diplomacy, intelligence and information widely shared ... “¹⁰

- Fueling our economy is constantly full of surprises, and economists get ideas about what to ask looking at history.¹¹

"History will not ever be completely written, it is that of subjective plans enveloped in their aura of uncertainty," says French teacher Thierry de Montbrial, honorary member of the Romanian Academy¹². In his opinion: only "prospective" is the frontal approach to uncertainty, sanctions cannot be separated from predictions, they should be based on calculations that are intertwined, judged on past situations and assumptions of future environmental active topics, it need not be anticipated but rigorously related to immediate action and does not meet either exclusively or primarily by action, by rational activity, in the context of an approach that we want “rational” should be considered to identify events as possible and determine their degree of verisimilitude and even probability, if possible (by means of simulation trying to target levels of probability), the degrees of probability that require the use

⁹ Glad, John - “Future Human Evolution. Eugenics in the Twenty-First Century, Preface by Seymour W. Itzkoff, Hermitage Publishers, 2006, pag. 58.

¹⁰ Henderson, Hazel - “21st Century Strategies for Sustainability”, August 2005, www.hazelhenderson.com/

¹¹ Davis, Bob - The Lessons of History are Full of Significance for Today’s Economy, The Wall Street Journal Europe, September 26, 2002, p.1.

¹² De Montbrial, Thierry - Actiunea si sistemul lumii, Academia Romana, Fundatia Nationala pentru Stiinta si Arta, Ed.Expert, Bucuresti, 2003, pag.XXXVII-XXXVIII,89-93,121,414-427.

of all relevant information available, and the rules of logics formulated according to the coherent theory of probability, essential to the philosophy of knowledge and praxis, being a distinction between objective and subjective probability.

In the opinion of Edward Glaeser¹³ economists quickly assume opportunistic behavior in almost every step of life, in the context in which a central theme of economic science is respect for the material incentives. While this theory is applied to improve incentives in the tough world outside, the research methods used are based on the assumption that social scientists are robot saints. This is that no economist would present a model using assumptions about individual altruism behind statistical methods (a low number of econometric work in this area is probably better understood as the result of very low interest of researchers in using empirical techniques that correct extraction of data; the impact of these techniques should reduce levels of invariable significance of results; the same incentives that lead researchers to extract data will lead them to avoid techniques for adequate and accurate extraction of data).

Addressing the reductionist economy has generated strong criticism of economic theory, defending "anti-economist" Hazel Henderson as, mentioned above, offering alternative indicators which gradually replace the assumption that GNP is the only significant indicator. This evolutionist economist considers, for example, building a healthy community would be the dismantling of most of the economic assumptions that operate (lifestyle of the consumer rush to buy more extravagantly).¹⁴

Philosopher John Searle (Professor of Philosophy at the University of California, Berkeley) said that a slogan often used reminds us that "the mind is for the brain what the program is to the hardware". Addressing the Association of American Philosophy, Searle¹⁵ does not show how the brain processes information, it is an organ whose specific biological and neurobiological processes cause particular forms of specific intent ("intrinsically, in the brain there are neurobiological processes that cause consciousness").

In the last 25 years, stressed Barry C. Lynn (Senior Fellow at the New American Foundation, a business and politics journalist; expert in global industrial systems, corporate organization, trade, energy, emerging technology and developing nations with average income , author of the book "End of the line: Increase and decrease of

¹³ Glaeser, L. Edward - Researcher Incentives and Empirical Methods, Discussion Paper Number 2122, Harvard Institute of Economic Research, September 15, 2006, Second Draft, <http://post.economics.harvard.edu/hier/2006papers/2006list.html>

¹⁴ Henderson, Hazel - Healthier communities and "economism", article published as part of the Healthcare Forum's, Healthy Communities Action Kits, Module 3, in 1994, Joe Flower.

¹⁵ Searle, R. John - Is the Brain a Digital Computer?, cogsci.soton.ac.uk/~harnad/Papers/Py104/searle.comp.html

the global corporation, Doubleday, 2005) in April 2007¹⁶, the concentration of the economy led to the emergence of a whole hierarchy of power in November, the most important aspect of that is change in the nature of competition: but it is less and less in the open market and increasingly more networks inside are closed, authoritarian, corporate-controlled, consequently tending to become even less creative in nature and even more destructive. Lynn highlights in this context that: what makes our current system of production network so dangerous is that, due to consolidation, increasingly more of its component operations are unique in nature, the systems defined by a high degree of monopoly tending in time to erode any sense of ownership or responsibility; increasingly more, those who take care of the system and want to improve it cannot; any system that is personalized gains collective punishment, increasing temptations for individual risk taking that produces gain even if they endanger the system as a whole; what is ripped from the system by the most powerful people are pockets of accumulated wealth; for these workers, pockets of wealth are good salaries and pensions, while for the pockets of the company, assets are what makes a healthy industrial structure marked by variety, new technology and flexibility; The purpose of the School of Economics in Chicago (organized around the broad political writings of Friedman) was rather than to illuminate the nature of political relations of the market, to push politicians completely outside the rule of business and finance and to push “concepts of the market” in the policy rule; going forward, what matters is that we can apply engineering principles to our fresh global industrial network in a radically new way, beyond the purely materialistic and nuclear philosophy, fixed in monomaniacal pursuit of efficiency as measured by production of objects and increasingly more in cash; the mainstream science of the economy today is striving not to simply restrict the land made subject to a rational, but to replace the individual responsibility of citizens to pursue ethical policy results with low religiosity of a “market” that has been mechanically automated, which is really just a shame for the private political economy directorate of the immensely rich; presuming that there is a crack in human nature, the best way to control this crack is by building political institutions that are carefully calibrated and always in evolution and follow this approach through the entire system of human affairs, both private and public.

Economists complain that politicians do not have a healthy knowledge economy, and the latter accuses the first of not understanding politics. While the first are trained in the analysis of the economic system, the others are specialists in the political analysis and action within it. It appears as if they live in different worlds (as Joseph Stiglitz said in 1998¹⁷), each with its beliefs, goals, methods and limitations.

¹⁶ Lynn, C. Barry - Why Economists Can't See the Economy, The American Prospect, April 2007, http://www.newamerica.net/publications/articles/2007/why_economists_cant_see_the_economy_5058

¹⁷ Stiglitz, Joseph -The private uses of public interests: incentives and institutions, Journal of Economic Perspectives, 12 (2), 1998, 3-22.

On the one hand, politicians (with their hard-to policy entrepreneurs with management expertise in political processes, are subject to restrictions resulting from the ongoing political process and political constellation; the criteria for achieving their goals is partly individual and partly induced by the political system) require precise answers, and political decisions cannot be delegated to scientific procedures to produce objectively “the best”. On the other hand, there are the economists working with scenarios (with certain contingent statements and allegations regarding the development of the economy and society), and counselors should involve an interactive process, including defining goals and developing solutions (both being subject to political restrictions, and cognitive economy). Proposals for economic policy are often inconsistent or contrary to the rules, requirements and peculiar tempers of the political-administrative system. We consider¹⁸ that:

- It is very important to recognize that their own ideologies and beliefs made by politicians in this process may be in conflict with the belief of academic advisers are based on scientific paradigms and schools of thought;

- There are several obstacles to improving the effectiveness of policy reforms: to achieve more goals with one policy instrument is often ineffective but attractive from a political point of view, is unattractive cost transparency in political, adopting the principle of fiscal equivalence is unattractive from a political point of view;

- In democracy, ideologies are tools of rational self-engagement, which increase the credibility of policy makers and tend to reduce problems of inconsistency and temporal development of court decisions;

- Positive beliefs differ significantly between economists and others, and advancement in terms of “rationality” in economic development policy requires careful analysis and proper communication;

- Economic education, especially politicians and journalists may need improvement;

- The political process not only selects and solves collective problems, but selects beliefs and behaviors and to preserves the success until it arrives again.

- The distribution of policy or law systems appears more efficient than they really are, policy reforms still changing, usually in distributions of income, wealth, or rights, so losers often need to be compensated, which is not so easy.

4. The most important challenge faced by modern managers

Even if we are not usually aware of the fact that everything starts with the mental models, argues Roger Martin¹⁹, that we all use in our thinking. Concerned to identify how we can become integrative thinkers, from the patterns of thinking of

¹⁸ Tielman Slembeck - Ideologies, beliefs, and economic advice – Acognitive-evolutionary view on economic policy-making, Chapter 6 of *The Evolutionary Analysis of Economic Policy*, Edited by Pavel Pelikan, Gerhard Wegner, New Horizons in Institutional and Evolutionary Economics, Series Editor: Geoffrey M. Hodgson, Eduard Elgar, Cheltenham, UK, Northampton, MA, USA, 2003, pp.147-149, 151, 155

¹⁹ Martin, Roger - Becoming an integrative thinker, *Rotman Magazine* Fall 2007, pp.4-9

famous leaders (“Which way of thinking led to their achievement?” “Was there a common model in their mentality?”), Martin makes reference to John Sterman at MIT who explained that we think we see what is in reality, when in fact what we see is based on our mental models and we suffer, hence the “naive realism”. The result of this state of affairs is the most important challenge modern managers are faced with: “the collision of the model” (“Model clash”). Martin states that:

a) he has reviewed the decision to draft and it still consists of four steps: salient (what to choose and focus attention on and what not to, here showing features that are relevant to our decision), causal (as we understand what we see, what kind of relationship we believe exists between the different pieces of the puzzle), architecture (a new step, 2007, a model entirely built based on what we achieved in the first two steps), resolution (which is our decision based on our reasoning);

b) integrative thinkers approach each of these steps in a very specific way: consider several characteristics of the problem as salient to its resolution; consider causality multidirectional and oscillating between salient characteristics, are able to keep in mind the image (“big picture”) while working on individual parts of the problem, find creative resolutions to the tensions inherent in the architecture of the problem;

c) the most interesting part is that each builds their own understanding of the surrounding world in a similar manner, following either implicitly or explicitly steps one to four to build their mental models, with the result that the realities collide (“clashing realities”) and those who do not like the proposed model are seen as being uninformed (“stupid”) or ill-intended (“evil”), which creates tension, conflict and stalemate;

d) there are two ways to deal with the collision model: you are afraid and to avoid it, to deny the existence of fundamentals (this results in their own pursuit of a model like no other, trying to smite digging or other models in other models to avoid the inherent conflict) to search and multiply the collision model (this is far superior, this scenario is the source of great intuition and resolutions; there are no situations in which a better model can’t be built).

After all, the approach described above that sustained the hope of building, in any situation, a better mental model, we cannot report it at the time "to prevent" our being organized in advance on the road to “the next” crisis of confidence. Continuing to think of trust (integrity, competence, consistency, loyalty, openness), the key ingredient for the working environment and to society in general. Chellie Campbell, said in “The Spirit wealthy” as: “Life is a self-improvement course, and we are all in the same classroom.” Campbell also shows on her website that: “...we are the only physical entities that get ourselves caught and snared in the trappings of the Big BUT Syndrome. When we lose our Big BUT we send pure energy signals to the Universe so the Universe can bring us what we DO WANT instead of more of what we don’t want” (Chellie Campbell about “Kicking the Big But Syndrome” by Eddie Conner, iUniverse, 2004).

A year before, in 2003, a Nobel prize laureate for economics (awarded in 2002), the psychologist Daniel Kahneman²⁰ interested in building a science of experience that builds on the experience we solve as we tired to find a really good Scientific welfare measure. Kahneman forged a new field called hedonic psychology, the study of what makes life and experiences pleasant or unpleasant, wondering if we are able to predict the evolution of our tastes, given that: it is a matter for serious science, we have a different kind of access to the core of our experience and our past experiences, when the worst or best depending on experience and the top end of the experience (and do media if they can have a very good prediction of what people will say that we have experienced in general without taking into account how long the experience was) what we are actually in mind is not thinking about how new or how we evaluate ourselves, but it is more about quality experiences we have, the implications for measuring welfare.

Kahneman has identified a major paradox of our lives: life satisfaction does not follow the improvement in standard of living (improvement of one's ability to make economic choices of consumption), even if very many people would like to be richer than they are and think that if they were rich they would consume things they now must deny themselves, things they associate with a better way of life. Well, you get anywhere just because we adapt to things as they improve and should understand what pleasures we adapt and which not to.

We are all consumers (individual or organizational) and we obtain increasingly better values in the market, the market is in the center of our lives. In 1997, James R. Rosenfield²¹ showed us "Millennial Fever" (a phenomenon of inclusion, not exclusion) behavior leading to various interesting ways, meaning that offers marketing opportunities. The context was presented at large: companies and brands have to show a commitment to the future, but in a relaxed fashion and with user friendly "information" doubled in "information about information"; as we plunge into a ravine infinite regression, but it speaks with more than stress, with both entitlement increases to be stressed; contemporary attitudes towards customer service is a perfect reflection of the dematerialisation / materialization paradox, since people are overloaded with information, a list of few resonate as favorable because they promise facts into a finished and controllable package; cognitive self-absorption develops tolerance to the consumer today, people already feel insecurity about many things, including jobs, future financial and physical security, people are hungry for the end; good tracking equals the conclusion: new energies are triggered, travelling through time to a destination...

²⁰ Nobel Laureate Daniel Kahneman: Toward a Science of Wellbeing, 17 August 2003, <http://www.abc.net.au/rn/allinthemind/stories/2003/923773.htm> (listening to Danny Kahneman, guest of Natasha Mitchell on "All in the Mind" on ABC Radio National and internationally via Radio Australia and on the net as well; part of a public lecture by Professor Kahneman given at the University of NSW on the search for a science of well-being)

²¹ Rosenfield, R. James - Millennial fever, *American Demographics*, Ithaca, Dec. 1997, Vol. 19, Iss. 12, p. 47

After ten years of Rosenfield's signals, another author, Alison Dumas²², shows that it's not only hard to get people, it's hard to understand them, what's available on the surface of things is sometimes richer than what has preceded but is far more polished, and self-conscious potential leading one to lack something.

It is well-known how examination of the microeconomics of how the behavior of individuals, households and firms are manifested by the decisions of allocating scarce resources, affects supply and demand for goods and services that determine prices, prices which, in turn, determine the supply and demand for these goods and services. Mental processes and behavior of individuals are indeed explained in psychology. Al Ries wrote well in the spring of 2006²³ to study marketing begins with the study of psychology: if the psychology is the systematic study of human behavior, then marketing is a systematic study of human behavior on the market. Virtually every principle applied in psychology is applied in marketing. If the halo effect is in psychology, for example, charging the people who look good as more intelligent, more successful and more popular, this effect works in marketing. For years, mantra (delight) was focusing the marketing message on a single word or concept. The idea taken one step further, can produce dramatic effects, because in today's society marked by over communication, those who want to move through cobwebs should invest money in marketing "the best horse." What I recommend is leaving the product/service to serve as a halo effect for the rest of the line. The best will sink into memory, first single from a brand new category as the best thing, original authenticity.

The "father of marketing", Philip Kotler, introduced the term "social marketing" in an article (co-authored by Gerald Zaltman) published in 1971 ("Social Marketing: An Approach to Planned Change", *Journal of Marketing*). In spring 2004, along with Nancy Lee, Kotler argues how targeted social marketing is always changing corporate behavior (in general for the sake of improving health, safety or the environment), which is the hallmark of corporate social marketing to other corporate social initiatives more familiar, such as corporate philanthropy and volunteering for the community, aimed at changing individual behavior. That is why the two would state that corporate social marketing is the "best of breed"²⁴ among alternative corporate social initiatives in terms of support for the goals and objectives of marketing, including brand positioning and preferably (in view of marketing as the art of building brand, according to Kotler) market development and increased sales. Reason for this is, in short, that a change in personal behavior raises a good chance of making a change in behavior. This is because "when people change in a way that works and then personally benefit from these actions it is likely to have a

²² Dumas, Alison - The limits of market-research methods, Advertising Age, Midwest region edition, Chicago, Oct 8, 2007, Vol. 78, Iss. 40, p. 27.

²³ Ries, Al - "Understanding Marketing Psychology and The Halo Effect", Ad Age Daily, April 17, 2006

²⁴ Kotler, Philip, Lee, Nancy - Best of Breed, Spring 2004, http://www.ssireview.org/articles/entry/best_of_breed/

powerful combination, with positive company urged change.” Kotler and Lee conclude that in the context of social marketing campaigns, corporate full success will bring more corporate footprints on society and, when you can get an advantage in the social marketing aspect of employment, a company would be irresponsible not to pursue.

What is authentic in addressing the crisis of confidence? What do you sell to and who buys it? Who is the responsible social advantage in tracking and marketing? What is the “best horse” to be invested in - and who is able to make, having the adequate mental model, and by multiplying the collision model - the cross-town cobweb crisis of trust and confidence play?

Against the background of huge pressure of restoring trust, are we striving to make such knowledge sufficient to wisdom, maturing interdisciplinary dialogue, in the conversation becoming architects of generating responsible action, preparing ourselves and pointing how to properly continue becoming complex natural adaptive systems, which interact, understanding that the company is located in the heart of sustainable development and corporate social responsibility becomes a marketing strategy adopted by the corporate management who cannot choose ethical indifference?

Quality of life is a concept considered as difficult to define and operate. However, it was widely defined in terms of happiness, and about the latter following Mahatma Gandhi said: “Happiness is when what you think, what you say, and what you do are in harmony.” On the other hand, Henry David Thoreau said a few years before the revolution in 1848 that: “A man is rich in proportion to the number of things that will allow you to dispense.” Why can we break and why not go rebuild trust?

Life has shown and demonstrated that even economics education holds a special place, notably the fact that the forces associated with globalization have conditioned the context in which it operates and educators have profoundly altered human experience in terms of formal and informal education. It is considered that the most significant aspects of current practice and educational experience are: the transformation in merchandise and corporate responsibility, autonomy of national educational systems threatened by globalization, relocation and orientation and changing technologies in education, the process of branding, and globalization process of learning to be consumers, etc. What is one to do - wonders MK Smith²⁵ - “in the context of societies and systems conditioned by globalization and neo-liberalism in which there are asymmetrical relations of power?” He responds: “Ways of alternative education well articulated concern for welfare and participation in common life” and “ability to work with others with a similar vision.”

²⁵ Smith, M. K. - “Globalization and the incorporation of education”, *The Encyclopedia of Informal Education*, 2002

THE PUBLIC PENSION SYSTEM COMPARATIVE STUDY BETWEEN ROMANIA AND GERMANY

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Abstract

Pensions are the main form of protection to citizens by the state social insurance. This paper aims to build a comparative study of the main categories of pension granted in the public pension system - the old-age pension in Romania and Germany. In an attempt to identify possible causes of the significant differences that exist today between the old age pension received by a Romanian and a German pensioner, this paper makes an analysis of key aspects regarding the settlement of public pension systems of the two states. Therefore, we will make a comparison between the main sources regarding the establishment of state social security, namely contributions due by employees and employers, how a pension is granted and how the public pension is calculated (Pillar I).

Keywords: *public pension system, old-age pension, social security contributions, contribution stage, pension point*

JEL Classification: H53, H55, P52

Introduction

Pensions represent the main form of protection to citizens by the state social insurance. They consist of monthly entitlements to be granted to persons who, for various reasons, such as accidents, illness, disability, reaching a certain age, etc., can no longer achieve an income for themselves, or to those left without a financial supporters after their death.

This paper aims to build a comparative study of the main categories of pensions granted in the public pension system - *the old-age pension* in Romania and Germany¹. The present study will not take into account retired farmers as their

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¹ The German pension system was the first formal pension system in the world, designed by Bismarck almost 120 years ago, becoming a model for many social security systems in the world. It was also designed to ensure a standard of living after retirement similar to that achieved during the active life. Therefore, the German pension system may be rather similar to a system of "old-age insurance" than a system of "social security".

pensions are stipulated under different laws² compared to the pensions stipulated under the law regarding the public pension system and other entitlements. Also, in the western lands of Germany, public servants have a different pension system, which will not be subject to this comparison.

As members of the European Union, Romania and Germany have, at least at an official level in the case of Romania, an active social policy. For both countries, the term - “social state”³ in their fundamental laws, the social state being compelled to “take measures for economic development and social protection, likely to ensure to their citizens a decent living”⁴. The right to receive a pension is stipulated as fundamental right of citizens.

However, while in Germany, the average social pension exceeds significantly, in some cases, the amount of 500 Euros, in Romania the average social pension was, in July 2009, around 250 Euros. At such a level of average net pension, we cannot talk about providing a decent living for Romanian pensioners.

In Germany, the average pension varies from East to West. But there is also a gender difference in the value of pension. In the Western region, men have an average pension of 976 Euros and women - 465 Euros, while in the East region, the pension for men reaches 1056 Euro and for women – 663 Euros. The explanation for these differences is given by the longer periods of employment in the former RDG compared to RFG. Another explanation is that in GDR there is no distinction between pensions granted to public servants and those granted to other categories of employees. However, in Germany, at present, public servants have their own pension scheme, differently regulated.

In what concerns the level of yearly expenses made for public pensions, Romania registered in December 2008, 4,688 million social pensioner, out of which over 3 million were pensioners for old age (with complete or incomplete stage)⁵, the yearly expenses for pensions representing 7.3% of the GDP, while in Germany – a country having a population four times bigger than the population of Romania, the total number of pensioners was around 24.6 millions⁶, the expenses for the public pensions representing around 11,5%⁷ of the GDP.

² In Romania by means of the Law no. 263/2008 regarding the pension system and other entitlements for farmers, published in the Official Gazette no. 775/2008 and in Germany, the farmers' pensions are regulated at the level of each federal land.

³ According to art1 paragraph (3) of the Constitution of Romania: “Romania is a lawful, democratic and social state...”and according to art 20, paragraph (1) of the Constitution of Germany: “The Federal Republic of Germany is a democratic and social state”

⁴ Constitution of Romania, title II, art.47

⁵ The website of the National Chamber of Pensions and Other Entitlements, www.cnpas.org (27.03.2009)

⁶ The website of Deutsche Rentenversicherung Bund, www.deutsche-rentenversicherung-bund.de (30.05.2009)

⁷ The website of OECD, www.oecd.org (30.05.2009)

1. Sources regarding the establishment of the state social security

Both in Romania and Germany, the main source of the state social security funds is represented by the contributions paid by businesses and institutions, calculated by applying percentage rates on their gross salaries, and by the contributions paid by insured individuals.

It is a system based on the *principle of social solidarity between generations* (German: "Generationenvertrag"; English: "Pay as you go"), the term for a supposed generational contract under which there is ensured financing of the state social security by people still in employment.

In Romania, we have taxpayers in the public social security system⁸, as follows: insured individuals, who owe individual contributions to the social security system, employers, people who are elected or who are appointed in the executive, legislative or judicial authority, during their office, and members of cooperatives from an organization of handicraft cooperatives, the National Employment Office, administering the unemployment insurance budget, and any others who enter the social insurance contract.

The social security contribution rates differ according to working conditions (normal, extraordinary or special), as they are approved yearly by the state social insurance budget law.

According to the law of the state social security⁹, starting with February 2009, the social security contributions are established as follows:

- 31.3% for normal working conditions owed by employer and employees, out of which 10.5% owed by employee and 20.8% owed by employers;
- 36.3% for normal working conditions owed by employer and employees, out of which 10.5% owed by employee and 25.8% owed by employers;
- 41.3% for normal working conditions owed by employer and employees, out of which 10.5% owed by employee and 30.8% owed by employers;

The share of individual social security contribution includes the rate of 2% related to privately managed pension funds, established by Law no. 411/2004 on privately managed pension funds, republished, with amendments and completions.

In Germany, the institution similar to the National Chamber of Pension and Other Entitlements (CNPAS), dealing with the administration and management of the public pension system is the German Union for Pensions (Deutsche Rentenversicherung Bund), which coordinates, at federal level, the chambers of pensions created locally.

At present, the contribution to the public pension system is 19.9%¹⁰, out of which 9.95% is owed by the employee and 9.95%, is owed by the employer. In

⁸ The law no. 19/2000 regarding the pension system and other social security rights, published in the Official Gazette no. 140/2000, as subsequently amended and completed.

⁹ The law of the social security budget for 2009, no. 19/2009 published in the Official Gazette no. 122/2009

¹⁰ idem 6 (27.04.2009)

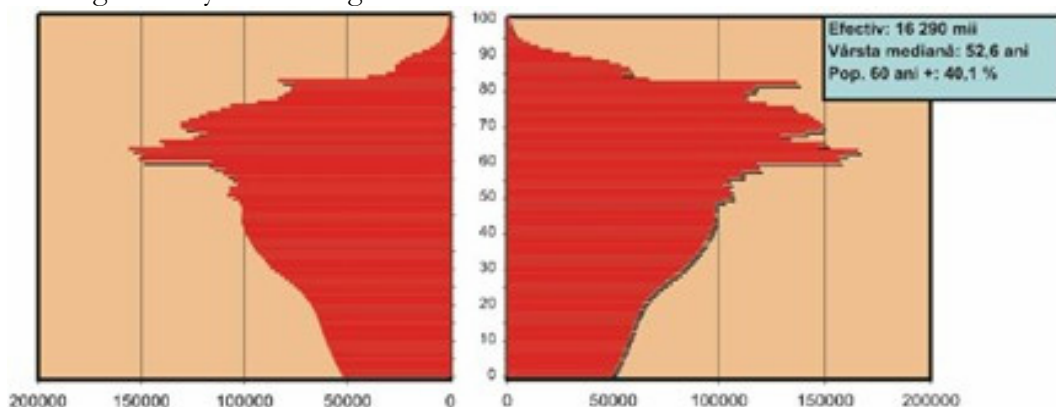
Germany, the public pension system does not provide any differentiation of the social security contribution rates depending on working conditions, however there is a difference regarding the maximum value of this contribution. Thus, while the western lands, this value has been, since January 2009, 5400 Euro, in eastern lands, it is limited to 4550 Euros.

2. Conditions for old-age pension

To receive an old-age pension, the taxpayer must meet two cumulative conditions: *to have the standard pension age and to complete the minimum contribution stage in the public system.* Thus, the old age pension, as its name suggests, is provided to persons who reach the age when it is considered that there is no normal working capacity, provided that they have made the minimum contribution in the public pension system. These conditions are required to be met both in the state social insurance system in the Germany and Romania.

Given the aging population (*Figure 1 and Figure 2*), all over Europe, and the current financial constraints, most European countries (including Romania and Germany) have initiated reforms of their public pension systems, by introducing parametric changes thereof, which include: increasing the retirement age, reducing early retirement, increasing the statutory contribution and others.

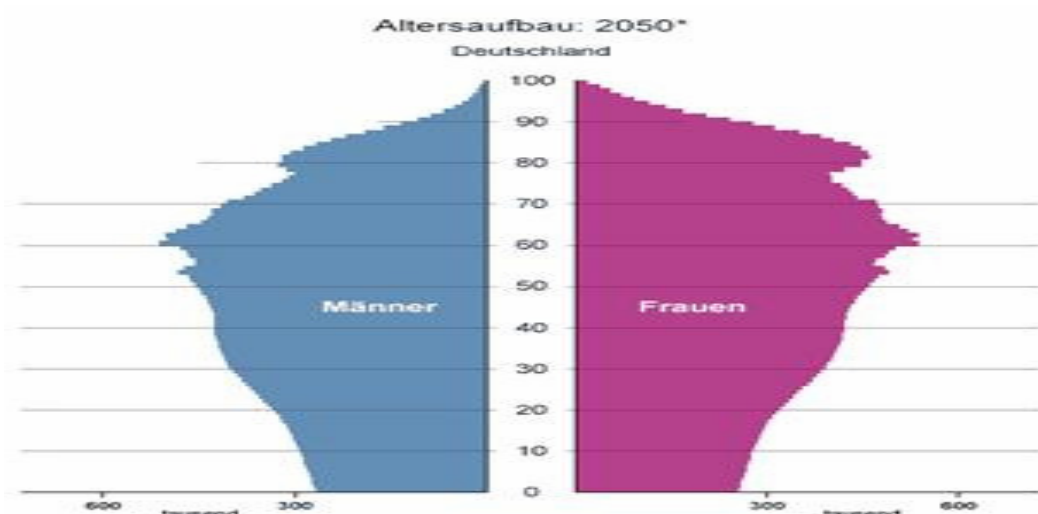
Figure 1: Pyramid of ages – Romania 2050



Populația României în 2050

sursa: populatiaromanieiincotro.unfp.ro

Figure 2: Pyramid of ages – Germany 2050



Populația Germaniei în 2050

sursa: www.handbuchderglobalisierung.de

At present (December 2008 – March 2009), the standard age for pension is in Romania 58 years and 6 months for women and 63 years and 6 months for men. They are planned to increase gradually in order to reach in 2015 60 years for women and 65 years for men.

The German pension system does not have any difference of age for gender retirement.¹¹ Thus, the retirement age has increased, for starters, from 60 years to 65 years. However, it is provided to increase the retirement age, until 2029, from 65 to 67 years, which increase will affect those born after December 31, 1946.¹²

The second condition to receive the old-age pension is to complete the minimum contribution stage.

At present (December 2008 – March 2009) in Romania, the minimum contribution stage is 12 years for both women and men. It will increase gradually, until 2015, to 15 years. With respect to the complete contribution stage, it is at present 27 years for women and 32 years for men. This stage will increase gradually, until 2015, to 39 years for women and 35 years for men.¹³

In Germany, the minimum contribution stage is 5 years, and the complete contribution stage is 35 years. A difference between the German and Romanian systems to calculate the years of contribution is that the German system does not take into account the years a person has carried out unpaid work (such as university attendance).

¹¹ There has been a difference and at present, women born before 1952 may request this type of pension, but with a loss of 0.3% for each month before turning 65.

¹² <http://www.fuer-ein-lebenswertes-land.bmas.de> (30.04.2009)

¹³ The website of the Ministry of Labor, Family and Social Protection, www.muncii.ro (30.04.2009)

3. Pension points and pension calculation

In Romania, the calculation of pensions is governed by section 6th of Law no. 19/2000 on public pension system and other social insurance rights. According to Article 76, the amount of pension is determined by multiplying the annual average score achieved by the insured during the period of contribution to a pension point value (*relation 1*). It increases with the amount of the contribution for health insurance, owed according to the law.

$$\text{Pension to be received} = \text{Yearly average score} * \text{Pension point value} \quad (\text{relation 1})$$

The annual average score achieved by the insured during the period of contribution is determined by dividing the number of points resulting from the addition of annual scores of the insured individuals in the period of contribution to the number of years corresponding to the complete contribution stage according to the legislation in force at the time retirement (*relation 2*).

$$\text{Yearly average score} = \frac{\sum_{n=1}^t \text{Yearly score}}{\text{Complete contribution stage}}, \text{ where} \quad (\text{relation 2})$$

t = number of contribution years

The annual score of the insured is determined by dividing to 12 the score of that year resulted from the addition of the number of points achieved every month (*relation 3*). The number of points achieved each month is calculated by comparing the individual monthly gross pay, including bonuses and supplements or, where appropriate, the monthly insured income, which was the base of individual social security contribution, to the average gross monthly salary of the respective month, provided by National Institute of Statistics and Economic Studies (*relation 4*).

$$\text{Yearly score} = \frac{\sum_{n=1}^k \text{Monthly score}}{12}, \text{ where} \quad (\text{relation 3})$$

k = number of contribution months

$$\text{Monthly score} = \frac{\text{Individual gross monthly wage (Monthly insured income)}}{\text{Monthly gross average wage}} \quad (\text{relation 4})$$

Regarding the pension point value, it is determined by the law of social security budget. It is determined by updating the pension point value every December with at least the inflation rate, forecast for the next budget year.

According to Law no. 19/2000, the pension point value cannot be less than 45% of the gross average salary used to substantiate the state social insurance budget. Thus, according to the law of the state social insurance budget for 2009, for

the period 1 April to 31 September, 2009, a pension point value is set at 718.4 lei, and starting with December 1, 2009, it should be increased to 732, 8 lei. Given that the gross average salary used to substantiate the state social security budget for 2009 is 1,693 Lei, the minimum threshold of 45% stipulated by art 80, paragraph (3)¹⁴ is not complied with.

According to data from the National Chamber of Pensions and Other Social Insurance Rights, in February 2009, at the level of the pension point of 697.5 lei, the average old-age pension, with full contribution stage amounted to 949 lei (for women, 905 lei), while the average old-age pension, without complete contribution stage, stood at 544 lei, 510 lei respectively, for women¹⁵.

In Germany, the value of the monthly pension is determined as the product between the real value of pensions, pension type factor and the personal retirement point (*relation 5*).

$$\text{Monthly pension} = \text{Real value of pension} * \text{Pension type factor} * \text{Personal pension point} \quad (\text{relation 5})$$

where,

The real value of pension represents the monetary value of a pension point. It is periodically adjusted with an index named the Reister factor¹⁶. At present, the real value of pension is 23.43 Euro, in the lands of the former Democratic Republic of Germany and 26.56 Euro in the lands of the former Federal Republic of Germany.¹⁷. To remove the differences existing between the two values, which affect the entire pension, it is planned to align gradually the real value of pensions on the entire German territory so that, starting with July 1, 2009, the pension point will increase with 3.38 percents in the former East Germany and 2.41 percents in the former West Germany.

The pension type factor for the old-age pension is 1.

The personal pension point is calculated as the product between the point of retirement and input factor. The pension point is given for each year of contribution. The input factor refers to when the applicant withdraws from active life. This factor decreases to 0.3% for each month before retirement and increases by 0.5% for each month worked after that age.

4. Conclusions

In an attempt to identify possible causes to explain the significant differences existing between the level of old age pension received by a Romanian pensioner and

¹⁴ Law no. 19/2009 regarding the state social security budget for 2009, published in the Official Gazette no. 122/2009

¹⁵ The website of the National Chamber of Pension and Other Social Insurance Rights, www.cnpas.org (05.05.2009)

¹⁶ Walter Riester, ministry of labor between 1998-2002

¹⁷ http://www.deutsche-rentenversicherung.de/nm_7112/SharedDocs/de/Inhalt/Servicebereich2/Lexikon/A/aktueller_rentenwert.html (09.05.2009)

a German pensioner, the present study examines the key aspects regarding the organization of the public pension systems in the two states. Thus, we have been considered the main sources of the state social insurance funds, namely the contributions owed by employees and employers, the conditions of the pension and the calculation of public pensions (Pillar I).

According to the information hereby, the main conclusion that emerges is that, at least in the matters under review, the public pension system in Romania is not significantly different from the German one.

In what concerns the social security contributions, both pension systems are the PAYG (Pay As You Go) type, thus relying on a so-called generation contract. The contributions themselves have different values in the two systems, but both of them are shared between employer and employee.

Both in Romania and Germany, the pension is granted only if the applicant meets the legal requirements: achieving a certain age and a certain period of contribution. Both systems use the concepts of "minimum contribution stage" and "complete contribution stage", but they take different values. The difference between the two systems is the fact that the German system does not provide any differences in terms of the retirement age for women and men.

The pension is calculated based on different formulas. Both formulas, however, have included the concept of "pension point". The pension received differs in both systems depending on the contribution period and the contribution amount, but also on the moment of the retirement.

Ultimately, the amount of state social insurance funds depends primarily on the size of the income of the staff employed as operators and employers pay social security contributions based on such income.

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The website of Bundesministerium für Arbeit und Soziales, www.bmas.de

The website of the Organization for Economic Cooperation and Development, www.oecd.org

HUMAN RESOURCES, IT SYSTEMS AND THEIR ROLE IN IMPROVING THE EFFICIENCY OF TRAVEL FIRMS

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Abstract

The technological changes in electronic channels, such as on-line access, will have an important impact on tourism, including marketing, consumer protection, information, education and employment. The demand for travel information is increasingly sophisticated and tourism industry employees need to learn how to use the technology for a proper response to a wide range of needs.

Keywords : it system, technology, travel industry

Jel classification: L83, M10, M15

Today, computer networks allow organizations and their employees to access large amounts of information about themselves or their consumers. This happened, on one hand, as a result of rapid development of computer technologies and, on the other hand, due to significantly lower costs of these technologies, thus positively impacting their introduction in every tourism activity. Most tourism firms use an increasing number of computers (used for tasks such as the creation of reports, data analyses and what-if scenarios), not only in the human resources department, but also in every other department, computers interconnected through an internal network, or an Intranet.

In a competitive industry, the organizations must try to develop a highly skilled workforce in order to develop and use the available technology. Highly educated workers will become a competitive advantage in using improved and innovative technologies. Nevertheless, the new information technologies are likely to replace many employees, leading probably to higher unemployment rates. The advances

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made in the new technology could also determine a deskilling of the human resources, which may result in a wider gap between the skill levels of those who develop new technologies and those of the employees who use them.

The skill requirements will affect all kinds of jobs at all levels, not only in the tourism industry. As skill requirements change because of the technology, the education and training needed by workers must also change. The question asked is: will the advances in technology increase or the decrease of skills requirements?

The answer to this question is that the skill requirements increase initially, as a new technology is developed, but the skill requirements needed to use that technology actually decrease in the longer term.

The best example in this respect relates to the computer skills. When the computer was originally invented, it was a very complex and very difficult to use machine. As the technology developed, the computer became a smaller, more powerful machine that was immensely more complex than the original one. However, while the computer became much more advanced, it also became more user-friendly; computer technology has led to the development of a machine that is relatively easy to use. The idea of simplifying the use of equipment determines a deskilling of the workforce because the technology reduces the need for much of the mental and physical work previously required.

The applications of technology in the travel and tourism industry allow providers to supply new and flexible services that are cost-competitive with the conventional mass-produced, standardized and rigidly packaged options. Technology gives suppliers the flexibility to react to market demands and the capacity to combine their services with those of other suppliers to provide new packages of services and improve their cost effectiveness.

A variety of interrelated computer and communication technologies are being introduced to the travel and tourism industry. The system of Information Technologies (SIT) includes computerized reservation systems, teleconferencing, video text, videos, video brochures, computers, management information systems, airline electronic information systems; electronic funds transfer systems, digital telephone networks, smart cards, satellite printers, and mobile communications.

Each technology used has the potential of influencing the interface between clients and employees in a positive matter. For example, computer-to-computer communications allow hotels to integrate their front & back offices and food and beverage operations. Computerized reservations systems have emerged as a dominant technology throughout the travel and tourism industry. Interactive automated ticket machines (ATMs) have also been introduced. These consist of a computer with an attached printer that enables passengers to research schedules and

fares, make reservations, purchase tickets and obtain boarding passes without the intervention of a human agent.

The rapid diffusion of information technologies throughout the travel and tourism industry is expected to improve the efficiency of production and the quality of services provided to consumers, and to generate increasing demand for new services. The computer simplifies work processes and can lead to higher profitability of a company's resources and actions.

But in order to reach that goal it is necessary to accentuate the role of I.T in the human resource area by supporting continuous improvements in the employee performance that will later translate into competitive and high-level service offerings.

The computer should be recognized as a simple instrument of human resources management, as a development program that can maximize the quality of products and services offered.

The most recent purpose of the computer based activities represent, in the tourism segment, the improvement of services quality. With the help of electronic mail - email and the web pages, the public relation area is in progress to higher efficiency.

The market of human resources-focused computer applications has been dominated by software centered on wage-related activities. However, over the last couple of years, applications with wider HR applicability (beyond management of employee compensations) have gained stronger visibility and reach in the travel industry.

A case study realized by Smartree and IRSOP revealed a deeper interest, especially in the middle and large firms, in the acquisition of specialized application for evaluating employees' performance, the administration of human resources files and the recruiting process, programs conceived to optimize the activities of the human resources departments and economize the internal resources allocated to these tasks. These IT solutions specialized on the administration of all aspects of HR management have begun place their focus on following the employee's professional evolution starting even from the selection period.

The importance of IT systems within a company depends, on one part, on the stage of development of the organization and, on the other part, on the importance given to human resources management.

For example, a company that has recently entered the market, with a limited number of employees, will probable require a simple, basic software solution to manage its employee records and their work compensation. Requirements for such systems are not very elaborated; their functionality includes storing employee information and producing a fairly large and diversified variety of reports. Few

companies – or none – would request, at this level, a specialized application for human resources management.

When the organization is expanding its size and operations and has a more prominent market position, the human resources activities are enlarged to include benefits management, organizational development, recruiting, training, performance evaluating, and so on. Only then will the organization need a complex IT system capable of comprising all these areas.

Another trend recently present in the area of HR solutions relates to the integration of these systems and with the ERP solutions (Enterprise Resource Planning) used within the companies, through specialized, complex modules for the management of human resources, resulting in improved information availability, higher security of employee data and improved automation of associated wage payments..

Taking into account the importance of human resources management for the companies, the IT systems must have flexible capacities for efficiently exploring and integrating the various informational flows. The applications used have to contain a number of specific functions, such as employee evaluation, management of the internal and external training efforts, etc Also, specialized applications are used for managing the recruiting process, potentially leading to substantial reductions of recruiting costs.

A new trend in the human resources department represents the large transformation from a administrative, routine activity to a strategic and competitive instrument used for planning and developing the business. The use of informational technology represents, in today's competitive environment, a successful business strategy.

Many organizations also give employees the opportunity to learn about the administrative activities (otherwise difficult to explore) and perform simple HR-related tasks (which would normally require the involvement of a human resources specialist) by using self-service computer applications. The main advantage here consist in the amount of time spared, time that can be better and more profitably spent on more important work processes and activities.

Having a large capacity of storing, maintaining and saving information, the computer system used in the human resources department can become an informational centre for the tourism organizations. Nevertheless, computers can't replace the experience and specialization of the managers. However, they have the capacity to provide important data and information for decisions making, resulting in more efficient human resources efforts.

The necessity of computers in tourism firms, in general, and in human resources area, in particular, is obvious considering the numerous benefits provided.

The factors that determine the extent to which a company in the Romanian tourism industry can benefit from a computerized human resources system and the specific scope and features that such a system must possess are:

1. The size of the organization;
2. The nature of firm (travel agency, hotel, transport firm);
3. The complexity of the professional training programs and the level of employee performances requested/expected within the tourism organization;
4. The firm's market position and its long term development plans;
5. The scope of activities and positions in the organization;
6. The life cycle stage of the organization;
7. Its organizational culture;
8. Its target market (domestic and/or external market) etc.

Regardless of the factors' nature, an HR information system represents a challenge of the millennium and its applications present multiple advantages for every organization: financial, material, human.

The studies about Romania's travel market show a decreased interest from foreign tourists, the main reason being a low quality service. As a result, and considering the large number of employees active in a variety of companies in the travel industry, it is necessary to implement an intelligent and scientific human resources policy in order to stimulate the employees and translate the higher employee engagement and professionalism into economic benefits.

Although other elements that contribute to the clients' satisfaction shouldn't be minimized, the development of Romanian tourism should also rely on improved employee training and skills, and HR-focused computer applications can provide significant assistance in this respect. Therefore, IT investments in the travel industry companies must be focused on their strategic components, among which human resources are a key element.

At the same time creating a human resources strategy can diminish the important influence of seasonality specific to the industry, which affects the interest and engagement of the employees in this area.

The human resources strategy and a performing IT system to support it can lead to a significant development of travel industry, with multiple advantages for both the employees and the organizations hiring them.

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ACCOUNTING OF LEASE CONTRACTS ACCORDING TO IAS 17 “LEASING CONTRACTS”

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Abstract

Leasing is a medium term (movable leasing) or long term (real estate leasing) financing technique, as an alternative to indebtedness, allowing a firm to exploit goods without being forced to rely on loans or own capitals. The specialized financial institution, as owner of the goods (lessor), will assign the goods to a user (lessee) based on a firm request and against payment of a rent, which can include, as the case may be: amortization of the asset; remuneration of the invested capital (based on commission); risk premium due to the fact that the financial institution (lessor) bears the entire financing; administrative expenses. This article presents the registration of the leasing in accounting, according to IAS 17, both from the point of view of the lessor, and from that of the lessee.

Keywords: lessor, lessee, financial leasing, interest rate, residual value, amortization

JEL Classification: M10, M41, M48

Introduction

Leasing operations constituted one of the controversy subjects in the accounting theory, finally leading to the imposition of the principle of prevalence of *substance over form*.

The controversy was disputed between the legal (patrimonial) approach and the economic one of the accounting balance. According to the legal theory, the balance shows the legal status of the company at a given time – i.e. the goods in the possession of the company, debt rights, as well as their relevant obligations. However, along with the evolution of the economic activity, in the business practice there appeared certain transactions (leasing operations, sales with property reserve clause, sales with redemption clause, debt factoring), which, although are circumscribed (sometimes) into a traditional legal figure, they have a totally different economic content than their legal form shows. And if such operations would be accounted according to their legal form and not their economic substance, the information supplied by the financial situations would no longer be relevant, and accounting would not achieve its fundamental target of presenting a true image of the *economic reality*.

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Where the *lease contracts* are concerned, these are agreements by which the *lessor* – legal owner of the goods, assigns to the *lessee*, for a determined period of time, the right to use an asset, against one payment or a series of payments.

In certain circumstances, leasing operations place the lessee in the same economic position it would have had if it had chosen an external loan aimed at buying the goods forming the subject of the lease contract. We say only *economic*, not also *legal*, since from the legal point of view there is no similitude, the right of ownership over the goods not being transferred to the user but remaining with the lessor. This differentiation between the *legal* nature and the *economic* nature of leasing lead to numerous discussions, not being known whether, on drawing up the financial situations, there should be taken into consideration the obvious financial substance of certain operations or their legal nature. Otherwise told, if the leased goods should be recorded in lessee's balance although it does not hold the right of ownership over such goods.

Accounting Instrumentation of Lease Contracts

1. Financial leasing in lessee's financial statements

On the **contract commencement date**, the lessee will account an **asset** and a **liability** assessed at the **true value** of the goods; or, if lower, the **updated value of the minimum leasing payments** determined on the initiation date of the contract.

The costs incurred by the lessee, which can be attributed directly to the contract (such as costs related to negotiations) are not recorded in the profit and loss account, but capitalized by the increase of the value of the leased goods.

Amortization of the goods will be recorded by the lessee, as it is the one consuming the majority of the economic benefits produced by the asset which forms the subject of the contract. Under conditions in which there is the reasonable certainty that the right of ownership will be transferred to the lessee at the end of the contract, then there can be established a useful life duration exceeding the duration of the contract.

Example: Commercial Company X and Commercial Company Y enter into a lease contract on January 1, 2005, the subject being an industrial piece of equipment.

The main contract data are:

- *Acquisition cost from the supplier:* RON 11,000,000.
- *Leasing period:* 5 years.
- *Initial payment*
- *Leasing installments:* 5 annual installments amounting to RON 3,000,000 each, paid on December 31 of each year.
- *Option price:* the option to buy may be exercised at the end of the contract, at the value of RON 500,000.
- *Economic life duration of the piece of equipment:* 6 months.
- *Residual value:* RON 1,500,000.

- *Residual value warranted by the lessee: 20%.*

To enter into the contract, the lessee made expenses with economic-legal counseling in view of the negotiation amounting to RON 10,000, which were invoiced on December 22, 2004.

Solution:

Stage 1. Contract rating:

The above contract is a financial leasing contract because it observes at least two or the criteria requested by IAS 17:

1) The contract duration (5 years) covers most of the economic life duration of the piece of equipment (6 years), i.e. approximately 83%.

2) The option price (RON 500,000) is sufficiently advantageous in comparison with the residual value (RON 1,500,000) – approximately 33% of the residual value – so that there is the reasonable certainty that the piece of equipment will be bought by the lessee at the end of the contract.

Stage 2. Calculation of the implicit interest rate:

$$11.000.000 = 2.000.000 + \sum_{t=1}^5 \frac{3.000.000}{(1+i)^t} + \frac{500.000}{(1+i)^5} + \frac{1.000.000}{(1+i)^5}$$

where,

i = rate of actual/implicit interest of the contract;

t = number of years.

From the calculation results $i = 22.71615\%$.

Stage 3. Calculation of the updated values of minimum leasing payments (VP(PML))

$$VP(PML) = 2.000.000 + \sum_{t=1}^5 \frac{3.000.000}{(1+i)^t} + \frac{500.000}{(1+i)^5} = 10.640.672 \text{ RON}$$

The updated value of the minimum leasing payments (RON 10,640,672) is lower than the fair value of the piece of equipment (RON 11,000,000).

Stage 4. Elaboration of the reimbursement table

Date	Principal to be reimbursed at the beginning of the financial service	Payments	Interest	Reimbursed principal	Principal left to be reimbursed at the end of the financial service
(1)	(2)	(3)	(4) = (2) x 22.71615%	(5) = (3) – (4)	(6) = (2) – (5)
01.01.2005	10,640,672	2,000,000	0	2,000,000	8,640,672
31.12.2005	8,640,672	3,000,000	1,962,828	1,037,172	7,603,500
31.12.2006	7,603,500	3,000,000	1,727,222	1,272,778	6,330,722

31.12.2007	6,330,722	3,000,000	1,438,096	1,561,904	4,768,819
31.12.2008	4,678,819	3,000,000	1,083,292	1,916,708	2,852,111
31.12.2009	2,852,111	3,000,500	647,889	2,852,111	0

Stage 5. Recording of the lease contract

On **22.12.2004** the expenses related to contract negotiation are recorded

231 "Immobilization under way" = 401 "Suppliers" 10.000

On **01.01.2005** (date of commencement of the leasing period) there will be recorded:

- reception of the goods, at the level of updated minimum leasing payments:

"Industrial equipment" = "Other long-term loans" 10,640,672

Lease contracts"

- capitalization of expenses related to negotiations:

"Industrial equipment" = "Immobilizations under way" 10,000

- accounting of the initial payment;

"Other long-term loans" = "Checking accounts with banks" 2,000,000

Lease contracts"

On **31.12.2005** there will be recorded:

- payment of the first leasing installment:

% = "Checking accounts with banks" 3,000,000

"Other long-term loans.

Lease contracts"

1,037,172

"Expenses related to interest"

1,962,828

- recording of the amortization of the goods:

Amortization of the goods in linear regime:

- useful life duration: 6 years;

- residual value (assessed at the end of the useful life duration): RON 0.

Amortizable value: 10,640,672 + 10,000 – 0 = lei 10,650,672

Annual amortization: 10,650,672 / 6 = RON 1,775,112/year

"Amortization expenses" = "Corporal immobilizations amortization" 1,775,112

Corporal immobilization"

The records at the end of 2005 are repeated each year until the end of the contract.

2. Financial leasing in lessee's financial statements

At the commencement of the contract, the lessee will record a **debt** (granted loan) assessed at an equal value with a **net investment in the lease**, representing the **gross investment in the lease** updated to the implicit interest rate. The **gross**

investment represents the amount between the minimum leasing payments and any unguaranteed residual value. The difference between the gross investment and its updated value represents the **unearned finance income**.

Practically the debt will be recorded at the fair value of the goods (represented, usually, by the cost of acquisition of the goods from the supplier) plus other costs which are directly related with the conclusion of the contract (such as: negotiation costs). Consequently the expenses which can be directly related to the contract are not recorded in the profit and loss account but are capitalized by increasing the value of the debt.

The lessor no longer presents the goods in financial leasing in its balance since it no longer has control over such goods (no longer holds the majority of advantages and risks related to the property) and no longer records the amortization thereof.

The unearned finance income will be allotted/recognized along the leasing period so as to reflect a constant interest rate over the net investment.

Example: We will solve below the previous example from lessor's point of view.

Solution:

Stage 1. Contract rating:

The contract the data of which were stated is a financial leased contract from the same considerations presented above.

Stage 2. Calculation of the implicit interest rate:

The implicit interest rate of the contract (calculated above): $i = 22.71615 \%$.

Stage 3. Calculation of the net investment in the lease (INL):

INL = Updated gross investment in the lease (VP(IBL))

$$VP(IBL) = 2.000.000 + \sum_{t=1}^5 \frac{3.000.000}{(1+i)^t} + \frac{500.000}{(1+i)^5} + 1.000.000 = 11.000.000 \text{ RON}$$

Stage 4. Calculation of the unearned fiancé income and constant remuneration rate of the net investment (r)

$$VFN = IBL - VP(IBL) = IBL - INL$$

$$IBL = 2,000,000 + 5 \times 3,000,000 + 500,000 + 1,000,000 = \text{RON } 18,500,000$$

$$VFN = 18,500,000 - 11,000,000 = \text{RON } 7,500,000$$

The unearned finance income represents the remuneration of the net investment, the investment unrecovered by the minimum leasing payments. Consequently, in order to allot the financial income related to the contract along the leasing period, there will be calculated the interest rate required to update the

minimum leasing payments so that it reimburses the presented value of the net investment.

$$11.000.000 = 2.000.000 + \sum_{t=1}^5 \frac{3.000.000}{(1+r)^t} + \frac{500.000}{(1+r)^5}$$

From calculations there results $r = 20.852815\%$

Stage 5. Elaboration of the reimbursement and allotment of the financial income table

Date	Principal to be reimbursed at the beginning of the financial service	Payments	Interest	Reimbursed principal	Principal left to be reimbursed at the end of the financial service
(1)	(2)	(3)	(4) = (2) x 22.71615%	(5) = (3) - (4)	(6) = (2) - (5)
01.01.2005	11,000,000	2,000,000	0	2,000,000	9,000,000
31.12.2005	9,000,000	3,000,000	1,876,753	1,123,247	7,876,753
31.12.2006	7,876,753	3,000,000	1,642,525	1,357,475	6,519,278
31.12.2007	6,519,278	3,000,000	1,359,453	1,640,547	4,878,731
31.12.2008	4,878,731	3,000,000	1,017,353	1,982,647	2,896,085
31.12.2009	2,896,085	3,000,500	603,915	2,896,085	0

Stage 6. Recording of the lease contract

On **01.01.2005** there will be recorded:

▪ assignment of the goods at the level of the net investment in the lease equal to the fair value of the goods on the contract commencement date:

"Other long-term debts" = "Industrial equipment" 11,000,000
Lease contracts"

▪ collection of the initial payment

"Checking accounts with banks" = "Long-term debts. 2,000,000
Lease contracts"

On **31.12.2005** there will be recorded the collection of the first leasing installment:

<i>"Checking accounts with banks"</i>	=	%	1,000,000
<i>"Other long-term debts.</i>			
		<i>Lease contracts"</i>	110,884
		<i>"Income from interest"</i>	889,176

Amortization of the goods: not recorded, the goods being taken out if lessor's assets.

The records at the end of 2005 are repeated each year until the end of the leasing period with the amounts in the reimbursement table.

3. Operational leasing in lessee's financial statements

The goods taken in leasing are not recognized in the balance since the lessee does not hold control over them. The leasing payments are recognized as an **expense** in the profit and loss account over the duration of the contract.

Example. Commercial Company X SRL and Commercial Company Y SRL enter into a lease contract on January 1, 2005, having as subject one Minolta type EC400 copier.

The main contract data are:

- *Acquisition cost from the supplier:* RON 11,000,000
- *Leasing period:* 4 years.
- *Leasing installments:* 4 annual installments amounting to RON 1,000,000 each, payable on December 31 of each year.
- *Option price:* the option to buy may be exercised at the end of the contract, at the value of RON 10,500,000.
- *Residual value of the piece of equipment at the end of the contract:* RON 10,700,000.
- Economic life duration of the piece of equipment: 10 years.

Solution:

Stage 1. Contract rating:

The above contract is an operational lease contract since it does not observe any of the criteria requested by IAS 17:

- the contract does not provide transfer of the ownership right at the end of the leasing period;
- the option to buy the piece of equipment cannot be exercised at a sufficiently advantageous price (10,500,000 as compared to 10,700,000) in order to exist a reasonable certainty that the piece of equipment will be bought at the end of the contract;
- the contract does not cover most of the economic life duration of the piece of equipment (4 years as compared to 10 years);
- the updated value of the minimum payments on contract commencement date is not equal or greater than the fair value of the piece of equipment on that date:

$$11.000.000 \gg \sum_{i=1}^4 \frac{1.000.000}{(1+i)^i}$$

- the asset forming the subject of the contract does not have a specific nature, so only the lessee can use it without significant alterations.

Stage 2. Elaboration of the reimbursement table

Date	Payments
(1)	(2)
2005	1,000,000
2006	1,000,000
2007	1,000,000
2008	1,000,000

Stage 3. Accounting of the lease contract

On **01.01.2005** there will not be recorded the receipt of the piece of equipment in the lessee's balance as it does not have control over the resource (does not have majority of advantages and risks related to the piece of equipment):

On **31.12.2005** there will be recorded payment of the first leasing installment:

$$\text{"Royalty expenses"} = \text{"Checking accounts"} 1,000,000$$

Amortization of the piece of equipment: not recorded by the lessee, not recognizing the piece of equipment in the balance.

4. Operational leasing in lessor's financial statements

The piece of equipment forming the subject of the lease contract is shown in the balance according to its nature. The leasing payments are recognized as **income** into the profit and loss account for the duration of the contract.

Example. We take into consideration the same issue presented above from the point of view of the lessor.

Solution:**Stage 1.** Contract rating:

The above contract is an operational lease contract as it does not observe any of the criteria requested by IAS 17, as shown in the above example.

Stage 2. Elaboration of the reimbursement table

Date	Collections
(1)	(2)
2005	1,000,000
2006	1,000,000
2007	1,000,000
2008	1,000,000

Stage 3. Accounting of the lease contract

On **01.01.2005** the assignment of the piece of equipment there will not be recorded as the lessor continues to have control over the resource, continuing to show it in its balance.

On **31.12.2005** there will be recorded:

- collection of the first leasing installment:

“Checking accounts with banks” = *“Income from royalties”* 1,000,000

Amortization of the piece of equipment is recorded by the lessor, it continuing to recognize the piece of equipment in the balance.

Amortization of the piece of equipment in linear regime:

- useful life duration: 10 years;
- residual value: RON 1,000,000.

Amortizable value: 11,000,000 – 1,000,000 = lei 10,000,000

Annual amortization: 10,000,000 / 10 = RON 1,000,000/year

“Amortization expenses” = *“Corporal immobilizations amortization”* 1,000,000
corporal immobilizations”

Conclusions

The impact if the leasing operation on the accounting statements of the lessee company differs according to the type of leasing contracted.

Thus, in the case of operational leasing, modifications are not produced at balance level, the operation being recorded outside the balance, as a consequence the degree of indebtedness of the company remains unchanged, not altering company's capacity to contract debts, this representing an advantage in case of attracting new investors, since this type of leasing determines a fictitious increase of company's profitability. The lease paid by the lessee is recorded as an exploitation expense in its profit and loss account. Considering its outside of balance recording, the financial analysts may overlook such capitals invested in the company, similar to debts, the increase of the economic profitability resulting from the reporting of the exploitation profit.

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FACTORS THAT AFFECT DIVIDEND POLICIES

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Abstract

In this article we want to know how much should be paid out by a company to its shareholders in the form of dividends. What is the effect of dividend policy on share price?

A financial manager's dividend policy objectives are to maximize owner wealth while providing adequate financing for the company. A company's dividend policy depends on many variables: company growth rate, profitability, earnings stability, maintenance of control, degree of financial leverage.

Different types of dividend policies include: stable dividend-per-share policy, constant dividend-payout ratio, a compromise policy, residual-dividend policy.

Keywords: dividend policy, predicting stock returns, Gordon Shapiro Model, price volatility, dividend yield

JEL Classification: G10, G32, M 40

Corporate earnings that are distributed to stockholders are referred to as dividends. Dividends are paid in either cash or stock, usually on a quarterly basis, and may be paid only out of retained earnings, not from invested capital.

Dividend policy remains a source of controversy despite years of theoretical and empirical research, including one aspect of dividend policy: the linkage between dividend policy and stock price risk. Paying large dividends reduces risk and thus influence stock price (Gordon, 1963) and is a proxy for the future earnings. A number of theoretical mechanisms have been suggested that cause dividend yield and payout ratios to vary inversely with common stock volatility. These are duration effect, rate of return effect, arbitrage pricing effect and information effect. Duration effect implies that high dividend yield provides more near term cash flow. If dividend policy is stable high dividend stocks will have a shorter duration. Gordon Growth Model can be used to predict that high-dividend will be less sensitive to fluctuations in discount rates and thus ought to display lower price volatility.

Dividend policy is important for the following reasons:

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- it influences investor attitudes. Stockholders look negatively on companies that cut dividends, since they associate such cutbacks with financial difficulties. In establishing a dividend policy, a financial manager must determine and fulfill the owners' objectives; otherwise, the stockholders may sell their shares, in turn driving down the market price of the stock.

- it impacts the financial program and capital budget of the company.

- it affects the company's cash flow. A company with a poor liquidity position may be forced to restrict its dividend payments.

- it lowers stockholders' equity, since dividends are paid from retained earnings. This results in a higher debt to equity ratio.

If a company's cash flow and investment requirements are volatile, the company should not establish a high regular dividend. It is preferable to establish a low regular dividend that can met even in bad years.

Rate of return effect, as discussed by Gordon (1963), is that a firm with low payout and low dividend yield may tend to be valued more in terms of future investment opportunities. Consequently, its stock price may be more sensitive to changing estimates of rates of return over distant time periods. Thus expanding firms although may have lower payout ratio and dividend yield, exhibit price stability. This may be because dividend yields and payout ratio serves as proxies for the amount of projected growth opportunities. If forecasts of profits from growth opportunities are less reliable than forecasts of returns on assets in place, firms with low payout and low dividend yield may have greater price volatility. According to duration effect and arbitrage effect, the dividend yield and not the payout ratio is the relevant measure. The rate of return effect implies that both dividend yield and payout ratio matters. Dividend policy may serve as a proxy for growth and investment opportunities. Both the duration effect and the rate of return effect assume differentials in the timing of the underlying cash flow of the business. If the relationship between risk and dividend policy remains after controlling for growth, this would suggest evidence of either the arbitrage or information effect.

Share price volatility should be related to the basic risks encountered in the firm's product markets. Market risk may also have impact on the firm's dividend policy. We therefore include a control variable to account for the variability in the firm's earnings stream. Given operating risk, there should be a direct link between stock price volatility and leverage. Under conditions of asymmetric information there is also likely to be a link between borrowing and dividend policy. A control variable was included to reflect corporate leverage. There are potential links between size and volatility. Small firms are likely to be less diversified in their activities and less subject to investor scrutiny. Institutions appear to concentrate their research activities and investment policies on larger listed companies. The market in the stocks of small listed firms could conceivably be less informed, more illiquid, and as a consequence subject to greater price volatility. Baskin suggests that firms with a more dispersed body of shareholders may be more disposed towards using dividend policy as a signaling device.

Dividend payout policy could be inversely linked to growth and investment opportunities. The previously mentioned duration and rate of return effects assume timing differentials in the firm's underlying cash flows. A variable to reflect growth was also included. The suggestion is that any remaining link between dividend policy and stock price volatility, after controlling for the influence of growth, would be suggestive of either the arbitrage or information effect. It is also possible that systematic differences in market conditions, cost structures, regulatory restrictions etc., may lead to differences in dividend policy. These also have impact on price volatility.

Price volatility (PV)

The dependent variable in the regression is derived by following the Parkinson's extreme value estimate or estimating variance of the rate of return. In this case, for each year, the annual range of stock prices will be divided by the average of the high and low stock prices and then raised to the second power. These average measures of variance for all available years can be transformed to a standard deviation by using a square root transformation.

Dividend yield (DY)

The variable was calculated by summing all the annual cash dividends paid to common stock holders and then dividing this sum by the average market value of the stock in the year. The average for all available years was utilized.

Earning volatility (EV)

In order to develop this variable, the first step is to obtain an average of available years of the ratio of operating earnings (before taxes and interest) to total assets. The next step is to calculate an average of the squared deviation from the overall average. A square root transformation is then applied to the mean squared deviation to obtain estimates of standard deviation.

Payout Ratio (POR)

To begin, total cumulative individual company earnings and dividends were calculated for all years. Payout is the ratio of total dividends to total earnings. The use of this procedure controls the problem of extreme values in individual years attributable to low or possibly negative net income. The payout ratio is set to one in cases where a total dividend exceeds total cumulative profits.

Growth in Assets

The yearly growth rate was calculated by taking the ratio of the change in total assets in a year.

The correlation between price volatility and dividend yield is -0.218 , which is significant at 0.01 , which is lower as compared to Baskin results of -0.643 . The correlation between price volatility and payout ratio is -0.177 , significant at 0.05 and

is also less than that of developed markets. The highest correlation is between payout ratio and dividend yield that has a value of 0.555 and is highly significant. This causes us to modify our regression equation because multicollinearity between two dividend policy measures may be a potential problem. The second highest correlation is between earning volatility and leverage (positive and significant), which means that higher debt firms, has higher earning volatility. Third highest correlation is between asset growth and leverage (positive and significant) i.e. firms with high debt have a high growth rate that clearly means that firms use debt to increase their size.

Significant negative correlation between dividend yield and earning volatility confirms our expectations that companies with volatile earnings are expected to pay lower dividends and to be regarded as more risky. The correlation between dividend yield (and payout ratio) and leverage are negative and significant which implies that with higher levels of debt firms pay lower dividends (and has low pay out ratio). Significant positive correlation between payout ratio and size shows that larger firms pay more of their earnings as compared to smaller ones.

When dividend yield is dropped and regression is run with payout ratio and the control variables, it indicates a significant impact along with other control factors. In the reform era, dividend yield has become more important determinant of share price volatility as compared to payout ratio. This shows that the reforms have improved the market and now companies are paying dividend more and investors are also pricing the shares on this basis. We also included the industry dummies to control the variation.

Both the dividend policy measures (dividend yield and payout ratio) have significant impact on the share price volatility. The relationship is not reduced much even after controlling for the above mentioned factors. The responsiveness of the dividend yield to stock price volatility increased during reform period. Whereas payout ratio measure is having significant impact only at lower level of significance. In overall period the size and leverage have positive and significant impact on stock price volatility. The size effect is negative during pre reform period, but positive during reform period. The earning volatility impact is negative and significant only during reform period. Although the results are not robust enough as in the case of developed markets but are consistent with the behavior of emerging markets

Most of the considerable research on the quality of earnings deals with the effects of changes in accounting principles or estimates.¹ Firms are seen as temporarily increasing earnings by reducing estimates of the valuation reserve for deferred tax assets or the allowance for doubtful accounts, for example. Or, to lower earnings (and bleed them back to the future), firms overestimate a restructuring charge. If the effect is temporary (and so reverses later), reported earnings are deemed to be of poor quality because they are not a good indicator of subsequent earnings. Correspondingly, quality concerns are reduced if accounting principles and estimates are applied on a consistent basis, period to period.

The term “quality of earnings” has no established meaning and has been used with different interpretations. We examine the issue from the point of view of an

analyst wishing to forecast future earnings. We define the term to mean that reported earnings, purged of extraordinary items identified on the income statement, is of good quality if it is a good indicator of future earnings that is forecasted from all information available. Thus we have in mind the notion of “sustainable earnings” that is often referred to in financial analysis. Correspondingly, unsustainable earnings produced by an accounting treatment are deemed to be of poor quality. We view earnings forecasts as an input to equity valuation. So we interpret the market as misinterpreting the quality of earnings when pricing firms if it fails, given the information available, to see that reported earnings is not sustainable in the future. This view of market inefficiency has been referred to as “fixation” on reported earnings, so, in those terms, we examine whether the market is fixated on reported earnings, unaware that they may be of doubtful quality because of conservative accounting.

Conclusions

Funds generated from retained earnings are the single most important source of finance. For any company, the amount of earnings retained within the business has a direct impact on the amount of dividends. Profit re-invested as retained earnings is profit that could have been paid as a dividend.

The major reason for using retained earnings to finance new investments, rather than to pay higher dividends and then raise new equity funds for the new investments are follows:

- using funds from retained earnings means that investments projects can be undertaken without involving either the shareholders or any outsiders.
- the use of retained earnings as opposed to new share or debentures avoids issue costs.
- the use of funds from retained earnings avoids the possibility of a change in control resulting from an issue of new share.

A company must restrict its self-financing through profits because shareholders should be paid a reasonable dividend, in line realistic expectations, even if the directors would rather keep the funds for re-investing. At the same time, a company that is looking for extra funds will not be expected by investors to pay generous dividends, nor over generous salaries to owner directors.

In practice, shareholders will usually be obliged to accept the dividend policy that has been decided on by the directors or, otherwise to sell their shares.

The purpose of a dividend policy should be to maximize shareholders' wealth, which depends on both current dividends and capital gains. Capital gains can be achieved by retaining some earnings for reinvestment and dividend growth in the future.

According to what can be termed the “residual theory”, maximization of shareholders wealth will be achieved by applying the following rules:

- if a company can identify projects with positive net present value, it should invest them
- only when these investment opportunities are exhausted should dividend be paid.

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SOCIAL TOURISM- A FACTOR IN CULTURAL, SOCIAL AND ECONOMIC CHANGE

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Abstract

Tourism has to maintain an individual and social balance, so that as well as providing personal fulfilment, it can be development in harmony with the human, natural and cultural environment and fit into a context of sustainable development. At the threshold of the third millennium, those of us involved in social tourism are faced with the emergence of threefold revolution:

- a revolution of the imagination and of creation in the development of new products and new services in response to the needs of a new and changing market;*
- a revolution in management that must be bold and innovative, especially in the area of legal statutes ;*
- a revolution of the heart in response to the needs of those excluded from globalisation.*

Thus, the tourism becomes core part of the European Tourism Model, ready to cope with the challenges raised by the Lisbon Strategy (2002) which targets, for the next 10 years, "to turn the European economy into the highest performance economy based on knowledge and able to deliver a sustainable growth through high employment rate and a better social synergy". The work aims to highlight the benefits of tourism promotion, especially of the social one, in a wider context starting from the tourism enduring development principles up until it's position within the European and Romanian social policy.

Keywords: European Tourism Model, social tourism, economic change

JEL Classification: L83, O10, O19

I. Changes on a worldwide scale

Today, when the tourism through all it's components is the most developed industry in the European union, having the highest growth rate (2-4.5% a year as total revenue and 1-1.5% as new jobs creation) the actual tourism policy shows clearly it's contribution towards improving the quality of life (reducing the

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unemployment rate, protecting the environment, developing certain areas etc.).

Thus, the tourism becomes core part of the European Tourism Model, ready to cope with the challenges raised by the Lisbon Strategy (2002) which targets, for the next 10 years, "to turn the European economy into the highest performance economy based on knowledge and able to deliver a sustainable growth through high employment rate and a better social synergy."

In this way, attention should be given to the challenge that the Lisbon Agenda raises for tourism, especially social tourism. As the strategic objective of the agenda is to make Europe "the most competitive and dynamic knowledge-based economy in the world, capable of sustained growth, growth providing more and better jobs and greater social cohesion", it will be necessary to analyse whether social tourism contributes effectively and positively to this goal, how it achieves this, and how its contribution could be enhanced.

The general mobility of people is growing all the time for all manner of reasons, whether it is for work, emigration, immigration, leisure or tourism, and this calls into question the very identity of tourism.

Tourism is a world-wide phenomenon because it is of economic importance to all countries in a society who is going through unprecedented changes. The advent of new family structures (step-families, single-parents...), the growing numbers of people living alone, the increase in leisure time, the improvement in life expectancy and the general ageing of the population resulting from it, with its consequences on policies related to pensions and social security, are all profoundly changing the face of tourism.

Access to holidays for all, especially for young people in developing countries means specific products need to be designed for these customers.

Social tourism can provide original answers to these new social and demographic models, in terms of products and services. This is indeed the real challenge of the next few years. In much the same way, the problem of the emergence of a new customer base for tourism related to the expansion of tourism in certain countries needs to be addressed.

The expected increase in international arrivals and new flows of tourists requires the provision of appropriate products. And the industrialised countries are faced with the needs and expectations of excluded people, of populations stemming from emigration.

Consideration is being given and initiatives developed, here and there, to respond to the need to integrate those people 'left on the shelf' by globalisation.

More generally, tourism has to take up the challenge of sustainable development in all countries, whether they are industrialised or developing (such as the Mediterranean basin, Tunisia and the countries of Asia and Africa). Social tourism

must put its resources, attainments and values at the disposal of regional and local communities to help them achieve the best kind of socio-economic development.

Finally, social tourism has to be recognised as a participant in the social and mutually supportive economy. It can and must explore to its benefit the resources of the social economy of economic sectors other than its own to find sources of funding, new legal formulae (the mutual aid cooperative, for example).

New information technologies, such as the internet, represent a real opportunity to meet some of these challenges. It is necessary to adapt, use and learn to exploit their potential to the full so as to develop a strong network between those involved in social tourism, to improve the circulation of specific information and to move into the era of electronic commerce... in spite of any reservations there may still be regarding the security of transactions or difficulties of a legal nature. To confront the challenges of globalisation in tourism, social tourism organisations need to forge alliances in order to make themselves heard and put forward solutions.

II. The contribution of social tourism to social integration and to global development

Tourism is a powerful driver of social integration, fostering contact with other cultures, places, customs and, especially, people: without travel, holidays and tourism, it would be impossible for people to meet, talk and acknowledge one another as fundamentally equal, yet culturally different.

This cultural exchange and enjoyment of leisure time is an important means of personal development, both for tourists and for those who receive them in their local environment. The cultural exchange generated by tourism is especially valuable for young people, enhancing their intellectual development and enriching their view of the world.

In the EU's case, social tourism could be effective in helping to build the Citizens' Europe. It is important to stress that the general opinion is that social tourism holidays should not be differentiated from tourist holidays in general, but should help with social integration.

General tourist holidays should provide social tourism groups with suitable conditions for enjoying their holiday and not the other way round. Clearly this implies that an effort has to be made not only as regards facilities, but also the type of service and hence the special training that workers in the sector should receive.

The conditions required for the development of social tourism are the same as those needed for an area and its inhabitants to see tourist activity as a driver of development. Insofar as communities can earn their livelihood from tourist activity, the local economy and social stability will be strengthened. As recommended by

many international bodies, tourist activity is a good antidote to wars and disasters of all types.

Tourism signifies welcome, exchange, the enhancement of local assets, friendship and communication between people, as opposed to war, which represents aggression, invasion and the destruction of nature. If one only loves what one knows, then tourism can encourage people to become closer and learn about each other, thus promoting peace, harmony and development. Social tourism can and should be reinforced, and should help to promote the conditions of equality, justice, democracy and well-being that enable the mutually-supportive development of all peoples around the world.

Tourism is possibly already and will certainly one day become the most powerful global industry, and one of the greatest contributors to employment, development, wealth and quality of life in its beneficiaries. While social tourism contributes to this economic strength, it is not yet sufficiently aware of its own power, its economic importance and, indeed, its ability to make the choice of destinations conditional on sustainability. Social tourism companies and bodies need to look beyond economic criteria when developing their activities.

One criterion that should be used is the creation of stable, high-quality employment, which is key to the sustainable development of a tourist destination. In particular, social tourism's contribution (whether it be great or small) to combating seasonality is a basic criterion when aiming for quality and stability of employment, and should form an integral part of the European tourism model. Public-private partnerships in the management of social tourism can serve as a useful instrument and indicator for meeting this criterion.

Although social tourism is an economic activity, it is also clearly a social activity, bringing benefits in this field. Visitors benefit on their holidays, tourism workers benefit in their work, and society as a whole gains. In the EU's case, social tourism is having an increasing impact on the construction of the Citizens' Europe and will surely continue to do so. Travel within Europe by as many citizens as possible can only lead to greater knowledge, understanding and tolerance.

The advantages of the social tourism's development and, implicitly, promotion, should be regarded in a wider context, by starting from the principles of the tourism's lasting development, continuing with the social European policy, and recovering in the Romanian one, thus:

- access of a larger number of people to the holidays
- stressing the „human” aspect of the tourism activity development
- tourism season's extension
- a better turning into account of the natural, cultural and anthropic potential
- reorients the tourism flows to less frequented areas

- offers conditions of maintenance for the receiving zones during the entire year
- socialisation instrument / improves the human relationships (social cohesion)
- rises the employment level
- economic development of the local communities
- it's a solution for the disfavored zones (mining, industrial..)
- growth of the life's quality at the society level.

It can be noticed that the social tourism, by its development, answers to many demands foreseen either in the general directions of the social policy (European and Romanian), either as basic principles of the tourism's lasting development (stated during the „Agenda 21” of the *UNO Conference for Environment and Development held at Rio*, 1992), in all the three big fields taken into account by them: economic, ecologic and social.

So, on economic level, it can be ascertained the fact that the social tourism can be a solution to the most difficult problem that tourism is dealing with, namely the seasonality. In this way, by a complex running and turning into account, during a longer period of time, it is ensured the increase of the returns from this field. The social tourism, by a sustained development, contributes to the reduction of the imbalances emerged between various zones and revitalizes the disfavored zones (with a very low economic activity, a low living level, diminished incomes of the population), being even able to prevent the occurrence of other imbalances.

Social tourism, by this extension of the tourism season, creates a safe labor market and redistributes the labor force made available from other highly restructured economic sectors (industry, agriculture etc.)

At the same time, by specific offers, the social tourism represents a way of developing the rural zones, by the expansion of specific offer's area and the creation of jobs in the rural regions, others than the traditional ones, improving the living conditions and rising the incomes of the local population.

On ecologic level, in the conditions of complying and promoting the principles of the lasting development (already recalled), the social tourism represents a means of protection, preservation and turning to account a country's cultural, historical and architectural potential.

In social context, the social tourism, by the access of a large number of people (regardless of their statute) to holidays, it is manifesting as an active way of education and increasing the people instruction and civilization level.

Briefly, the social tourism, by the contributions it brings to the three levels, leads to the increase of the life's quality, both for the ones who benefit of its offers, and for the operators in the tourism sector and the local community, on the whole.

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RELATIONSHIP BANKING MARKETING AND ITS IMPLICATIONS ON PIRAEUS BANK

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Abstract

Transformation of the European Union in accordance with the objectives proposed by the Lisbon strategy in the most competitive and dynamic economy based on knowledge, able to provide jobs, sustainable development and ensuring social cohesion, involves the development of various institutions of personalized relationships with customers aiming for their loyalty. It shapes such relationship marketing which has the main purpose to develop long term relationships with the clients in order to retain them and therefore attract new ones.

Keywords: relationship marketing, bank, clients, satisfaction, dimension.

JEL Classification: L 80, M14, M31

1. Introduction

The main objective of this paper is to highlight that, especially in the banking system, marketing exceeds its own limits, by passing from the traditional marketing focused on transactions to a new type of marketing focused on satisfying at the best level the clients needs. This new type of marketing has been called RELATIONSHIP MARKETING. The interest in this way is given by the fact that, the customer has become the core of the entire organizational structure of the bank.

Relationship marketing implies establishing a personalized relationship with customers in order to achieve their loyalty. Relationship marketing is based on the importance of customer trust. Thus relationship marketing process is a result of evolutionary strategies adopted by enterprises to benefit from competitive advantages. Relationship banking marketing is based on three pillars: the development of further links with customers, keeping existing customers and attracting new customers.

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2. The implications of relationship marketing on the banking system

Relationship marketing relies upon the communication and acquisition of consumer requirements solely from existing customers in a mutually beneficial exchange usually involving permission for contact by the customer through an "opt-in" system. (Gale & Chapman, 1994).

With particular relevance to customer satisfaction the relative price and quality of banking services sold through a particular bank alongside customer service generally determine the amount of sales relative to that of the competition. Although groups targeted through relationship marketing may be large, accuracy of communication and overall relevancy to the customer remains higher than that of direct marketing, but has less potential for generating new leads than direct marketing.

Relationship banking marketing has undergone a progressive process; around the 80's it was based on quality, then in the 90's an important element was represented by the costs; and then starting the year 2000 onwards, attention is directed towards customer needs in order to understand and develop personal relationships with him. (<http://my.liuc.it/MatSup>).

Being a relative new concept, the literature is not comprehensive yet, due to the lack of research in the field.

2.1. The role of relationship banking marketing on customer satisfaction

Banking markets involve productivity, risk and consumer satisfaction. The risk factor is the main activity that the bank is focused on. They are oriented towards the continuous decrease of this factor, that is why banks differ substantially in managing risk. Also, in the banking sector, there is some inefficiency in meeting existing market order, but the main purpose of any bank is that of insuring the best response to the customer's demand, therefore achieving customer satisfaction which leads to the increase of bank profit.

As a client, I have seldom felt that we are not respected at the fair value of payers of a product or service. We often feel that once we've closed a transaction we no longer need to keep contact with the bank, the reason being that we felt like we were hitting a wall of indifference.

Given these issues, customers have reached the top of the pyramid of bank objectives. These are oriented towards the understanding of customer psychology in order to keep the old customers and attract new ones. In a hypercompetitive economy clients are subject to a multitude of offers, that is why a certain bank must promote high values. Value is not only in the product, but ensuring customer service; nonetheless there is a great difference between the aimed value and that perceived by the client. If performance does not meet expectation, the customer will be

unsatisfied. If performance is consistent with expectations, the customer is satisfied. If performance exceeds expectations, the customer is extremely satisfied or delighted.

A high degree of satisfaction creates an emotional affinity with the brand, not just a rational preference. The result will be a high degree of customer loyalty. (Kotler, 2002). The bank should create a long term relationship with the clients in order to keep them. This way the customers undergo a bonding process with the specific bank.

3. Relationship marketing versus transactional marketing

Relationship marketing and transactional marketing are not mutually exclusive and there is no need for a conflict between them. A relationship oriented marketer still has choices at the level of practice, according to the situation variables.

Most banks blend the two approaches to match their portfolio of products and services. Virtually all products have a service component to them and this service component has been getting larger in recent decades. (Vandermerwe & Rada, 1988).

Relationship marketing is „the process of identification, stabilization, growth and, if it's the case, of finalization of the relationship with the customers and other groups interested in a profit, so that the objectives of all parts should be fulfilled“ (Grönross, 2005).

EXTENSIVE MARKETING	INTENSIVE MARKETING
<ul style="list-style-type: none"> - Increase customer number - Increase sales - Profit growth - Increased exchange trader - Attract new clients - Transaction efficiency - Launching new products - Market share growth - Opening new branches 	<ul style="list-style-type: none"> - Increasing frequency of customers' visits - Increasing the volume of sales per customer - Developing personal relationships with clients - Keeping old customers - Improved relationship to the client - Customer retention
TRANSACTIONAL MARKETING	RELATIONSHIP MARKETING

Tab. 1. Relationship marketing versus transactional marketing

In our opinion, relationship marketing implies two major dimensions: an informational one and a management based one. (Pop&Pelau, 2006)

4. Relationship banking marketing in Piraeus Bank

As far as PIRAEUS BANK is concerned, it is today one of the most dynamic and active financial organizations in Greece. Founded in 1916, Piraeus Bank went through a period that was owned and driven by the State (1975-1991) before being privatized in December 1991 (www.piraeusbank.ro). Since then, it increased continuously in size and activities. In Romania Piraeus Bank has over 100 branches and agencies.

The main strategic objectives of the Piraeus Bank Group are: increasing market share in Greece and the Balkans, improve quality and customer satisfaction, creating innovative products, strengthening the market position of the retail banking and financing small and medium enterprises, strengthening the Group in property management banking and insurance, and, in the end, the strengthening of profitability to a steady increase in the value of shareholders.

Due to the large number of branches of Piraeus Bank, a branch is responsible for fewer clients, so bank employees can learn more about each client. Thus the relationship between the customer and the bank employee can turn into a long-term transaction.

Informational dimension implies all the information that a company owns. For Piraeus Bank this means the possibility of broadening the information sphere held in order to individualize customers. Here, besides the formal information such as name, date and place of birth, place of work etc., there is also informal data gathered from discussions and personal relations between the customer and the bank employees.

Following direct discussions with the customer, bank employees can find potential needs, thus appearing on the banking market new products that best answer possible customer demands. Therefore the passive activity that the bank employees develop, that of offering the client his space and time, is placed in an active relationship with him.

Management dimension refers to all decisions taken within the bank concerning both the institution and the client. Piraeus Bank management system is very well structured. Management dimension includes all decisions that aim at informing the customer, organizational decisions within the bank but also when dealing with clients, pre-contract and post-contract decisions.

Using the relationship marketing approach, you customize programs for individual consumer groups and the stage of the process they are going through as opposed to some forms of database marketing where everybody would get virtually the same promotions, with perhaps a change in offer (<http://www.jimnovo.com>).

5. Conclusions

Marketing has had a phenomenal evolution, by passing from trade to relation. This implies a careful and constant monitoring of clients' preferences expressed by customers' buyer behavior and the buying evolution in time, to properly understand how customers perceive and individualize any inconveniences before interrupting any relation with the bank.

Decisions are always assessed in order to see the degree of satisfaction or dissatisfaction the customer had. In case clients complain, the bank tries to solve the issue as efficient as possible as its strategy is to keep their existing customers.

In Piraeus Bank, transactional marketing is based on a linear process and market survey therefore it personalizes customer needs, market segmentation surveys and market positioning of the existing supply, while relationship marketing is based on a circular process, meaning to the customers' individualization, building their awareness of the bank value for gaining customers' loyalty.

Transactional marketing in Piraeus Bank involves several indicators such as bank volume of sales, bank market share, the strong investment in the development of existing products and launching other new products, while relationship marketing is based on other indicators such as customer-centered value, the ability to convince customer to buy more banking products together with an intensive communication with the customer.

There are also some weaknesses of transactional marketing of Piraeus Bank such as spreading imitation products, seeking very limited competitive advantages, the desire to achieve more in a short time period, while relationship marketing wins customer's loyalty based on a long term relationship. (www.12manage.com).

Relationship marketing has managed to realize that customers tend to buy more products from the same banking institution based on customer loyalty and trust. Therefore to achieve these objectives relational marketing of Piraeus Bank is willing to maintain a price premium on most products and manages to reduce costs by keeping old customers in order to attract new ones therefore being cost efficient.

Benefits of using relationship marketing at Piraeus Bank: both customers and the bank employees become more satisfied with the quality of service, maintain old clients' loyalty because of the strong personal relation with bank, old clients become true promoters of the bank because they have experienced in an excellent way their services and on the long term they became part of Piraeus Bank family.

Not claiming that we have completed the subject, in the future we will research in detail marketing banking relationship, and especially its implications on customers' loyalty.

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THE MANAGEMENT OF THE NATURAL PROTECTED AREAS AT A NATIONAL LEVEL

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Abstract

The habitats from Romania are characterized by a certain composition of flora and fauna, components of biogenesis and there are influenced by different climacteric and natural factors. The climacteric influences of the arid areas from the Easter part to the oceanic ones from the Western part of the country and also the climacteric influences between plain and mountain imposed by the altitude of the relief have determined the appearance of a high number of habitats. Another factor which determines the great variety of habitats in Romania is represented by the chemical compositions of the rocks above (ground, underground). From an administrative point of view most of the natural areas protected belong to the National Forest Authority-ROMSILVA, fact that has negative implications on the biodiversity of these areas. It can be remarked that there is a proper legislative background that covers the complex issues of the protected areas. Also, there are many provisions according to the European requests or which are the result of a series of agreements, treaties and international conventions that Romania joined.

Keywords: protected area, biodiversity, legislation, reservation of the biosphere, national park, natural park

JEL Classification: Q26, Q57, Q58

1. Introduction

Romania is characterized by a high level of biodiversity which manifests both intra-specific and inter-specific, both from the species number and habitats point of view and also the ecosystems which it forms. The natural and semi-natural ecosystems from Romania represent approximately 47% from the total surface of the country. The Romanian territory includes, in a relative equal proportion the three geographic units – plain, hill and mountain, with a great variety of pedo-climatic and hydrologic conditions which separate a number of approximately 52 eco-regions with a variety of terrestrial and aquatic eco-systems – specific to the coast and Black Sea areas, steppe, forest-steppe, hill, mountain, lakes, water courses and their shores, arid or humid areas, including the ones specific to Danube Delta. Our country has a unique natural patrimony, which includes the Carpathians Mountains (65% from the

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Carpathian eco-region), and also one of the most important humid area from Europe, the Danube Delta (second in Europe as size). We must mention that Romania owns 30% from the carnivore species from Europe and also approximately 300 000 ha of untouched forests.

2. The global aspects concerning the national system development of the protected areas

As a result of the studies made by the Program CORINE Biotops, there was identified and characterized a number of 783 types of habitats (13 habitats of coast, 89 humid areas, 196 meadows, 206 forest, 54 slough, 90 rock/sand and 135 agricultural) in 261 analyzed areas from the total territory of the country. There have also been identified 44 areas with important species of birds, with a total surface of 6 557 km², which represents 3% from the surface of the country. The high level of diversity also reflects a variety of flora and fauna species. On the Romanian territory there have been identified 3 700 species of plants, among which 23 are declared in present monuments of nature, 74 are extinct¹, 39 in danger, 171 vulnerable and 1 253 rare. A significant proportion (appreciatively 60 %) is represented by the typical species of alpine and sub-alpine meadows, mountain pastures and hay fields. There are also a number of 600 species of alga and over 700 species of sea plants and coast plants. The endemic species represent 4%. Concerning the fauna, there have been identified 33 792 species, from which 33 085 invertebrate and 707 vertebrate (191 species of fish, 20 species of amphibian, 30 species of reptile, 364 species of birds and 102 species of mammals). Among these, 55 are in danger (11 species of fish, 3 species of amphibian, 4 species of reptile, 18 species of birds and 19 species of mammals), 69 are vulnerable (16 species of fish, 9 species of amphibian, one specie of reptile, 17 species of birds and 26 species of mammals) and 24 are rare (11 species of fish and 13 species of mammals).² As a result of the inventories, there are approximately 5 600 brown bears (60% from the European population of brown bears – *Ursus arctos*), approximately 3 000 wolves (40% from the European population of wolves – *Canis lupus*) and 1 500 lynxes (40% from the European population of lynxes – *Lynx lynx*), these species being a symbol of the wild life and of the natural habitats, which can be used to repopulate other areas from Europe that have registered a regress of these species. The aurochs, a rare animal, protected by law has disappeared from our forests one century ago and now it lives only in reservations.

Concerning the natural protected areas, between the member states of European Union, Romania has the highest bio-geographic diversity (five bio-geographic regions from the 11th European regions, among which: alpine, continental, Pannonia, steppe and the Black Sea's), most of it in a favorable state of

¹ There is no resonable suspicion that the last sample of the species is dead

² The *First Consultative Document for the National Plan of Development 2007-2013*, The Romanian Government, The Ministry of Public Finances, October 2004, page 151

preservation. Also because of the geographic position of Romania, the flora and fauna present Asiatic influences from the North, Mediterranean from the South and European-continental components from the North-West.

The total surface of the protected areas is of 1 858 301 ha and covers approximately 7, 80 % from the surface of the country. Till the end of 2013, this percentage will grow to 15%.

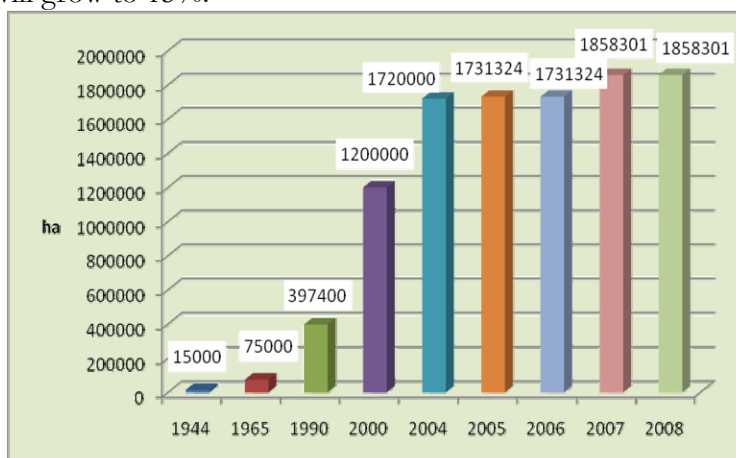


Figure no. 1. The evolution of the surface of the natural protected areas from Romania during 1944-2008

If we analyze the surface of the natural protected areas from our country we can observe that the highest increase was registered in the decade 1990-2000, respective an increase with 802 600 ha in 2000 compared to 1990. However, starting with 2004 and till present, the evolution is not significant because of the low interest of competent authorities in this field and the existing surface of only 138 301 ha in present.

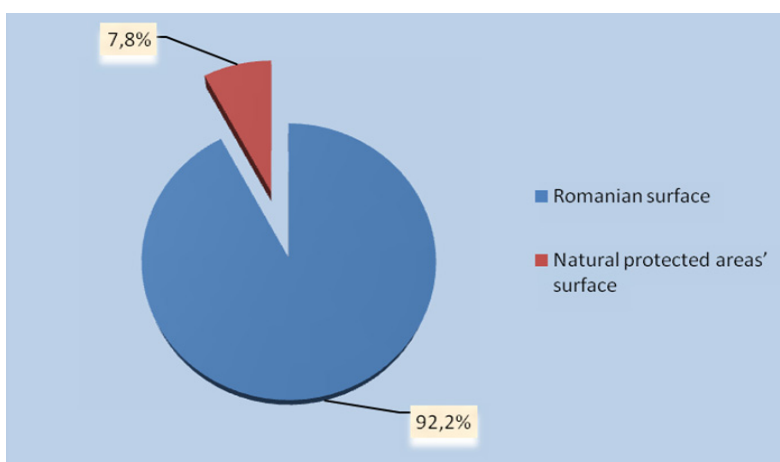


Figure no. 2. The total percentage of the natural protected areas' surface from Romania

Romania has the most diversified and valuable natural patrimony from Europe, however the total surface of the protected areas is still below the medium level of the European Union – 7, 8%, compared to 15, 0%. Also, this number is below the value met in other European countries such as Hungary and Poland where the surface of the protected areas represent approximately 23% from the total. There are included here:

- ❖ The reservation of the biosphere „Danube Delta” – 576 216 ha (31% from the total surface of Romanian protected areas);
- ❖ 13 national parks – 316 468 ha (17% ha from the total surface of Romanian protected areas);
- ❖ 14 natural parks – 760 757 ha (41% ha from the total surface of Romanian protected areas);
- ❖ 993 natural reservations – 183 808 ha (10% from the total surface of Romanian protected areas);
- ❖ 28 special areas of protected birds – 21 052 ha (1% from the total surface of Romanian protected areas).

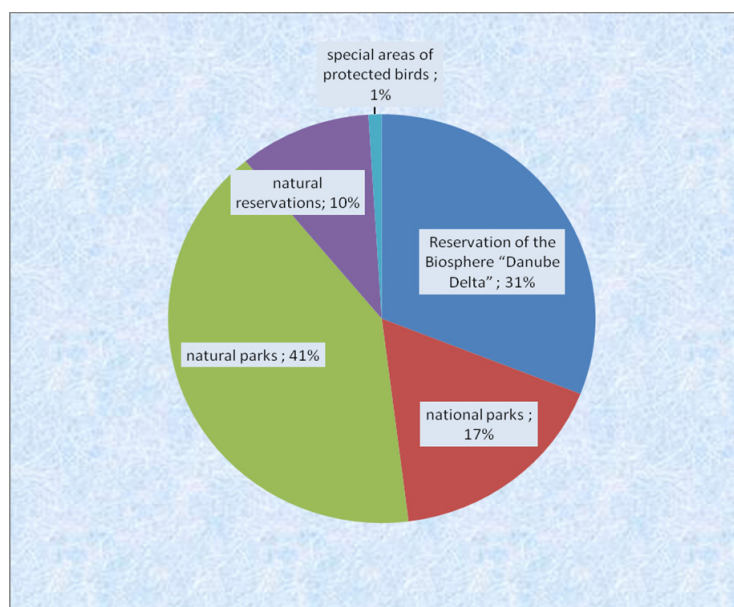


Figure no. 3. The distribution in percentage of the natural protected areas' surface from Romania

According to the occupied surface of the natural protected areas, the natural parks register the highest percentage (41%), followed by the Reservation of the Biosphere Danube Delta (31%), national parks (17%), natural reservations (10%) and special areas of protected birds (1%).

3. Presentation of the main categories of natural protected areas in Romania

In Romania we find the following categories of natural protected areas:

a. The Reservations of the Biosphere: Danube Delta – 576 216 ha (1990)- in the direct administration of the Ministry of Environment; Retezat-38 138 ha (1979) and Pietrosul Mare (Rodnei) - 47304 ha (1979). The last two are considered because of their surface and they are also included in the category of national parks. We also need to mention the fact that for Rodney and Retezat the surface of the national park coincides with the reservation of the biosphere;

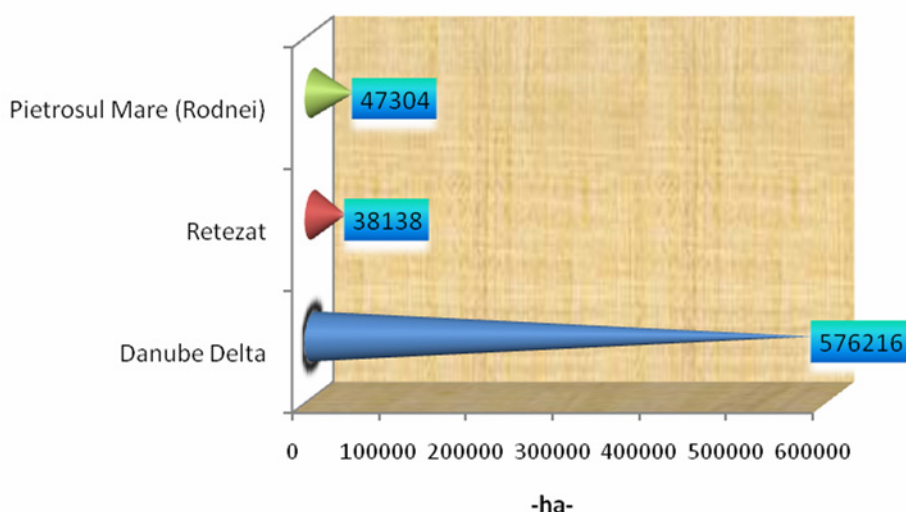


Figure no. 4. The surface of the Reservations of the Biosphere in Romania

If we analyze the territory occupied by the Reservations of the Biosphere from our country we can tell that the Danube Delta has the biggest surface compared to Rodna and Retezat.

b. There are 13 national parks in Romania with a surface of 318 116 ha. The national parks correspond to the category of management II IUCN – „National park: protected area, mainly administrated for the protection of the ecosystems and for the recreation.

The national parks from Romania

Table no. 1

No. crt.	National Park's Name	District	Surface		Administration	Proclamation Year	% from the total surface of the country
			(ha)	% from the total surface of the national parks			
1.	Domogled-Valea Cernei	Caraș-Severin, Mehedinți, Gorj	61211	19,34	Romsilva	1990	0,26
2.	Cheile Nerei-Beușnița	Caraș-Severin	36758	11,62	Romsilva	1990	0,15
3.	Semenic-Cheile Carașului	Caraș-Severin	36364	11,49	Romsilva	1990	0,15
4.	Ceahlău	Neamț	7742	2,45	The District Council of Neamț	1955	0,03
5.	Cozia	Vâlcea	17100	5,40	Romsilva	1981	0,07
6.	Călimani	Suceava, Bistrița-Năsăud, Mureș, Harghita	24041	7,60	Romsilva	1990	0,10
7.	Piatra-Craiului	Brașov, Argeș	14773	4,67	Romsilva	1990	0,06
8.	Cheile Bicazului-Hășmaș	Harghita, Neamț	6575	2,08	Romsilva	1990	0,03
9.	Rodna	Maramureș-Bistrița-Năsăud	47304	14,95	Romsilva	1990	0,20
10.	Retezat	Hunedoara, Gorj, Caraș-Severin	38138	12,05	Romsilva	1935	0,16
11.	Măcin Mountains	Tulcea	11149	3,52	Romsilva	2000	0,05
12.	Buila-Vânturarița	Vâlcea	4186	1,32	Romsilva	2004	0,02
13.	Defile of Jiu	Hunedoara, Gorj	11127	3,51	Romsilva	2005	0,05
	TOTAL		316 468	100			

Source: briefing according the Management Plans and the official web sites of the national parks from Romania

If we analyze the table from above we can observe that from the 13th national parks, Domogled-Cerna Valley has the biggest percentage (19,34%) from the total occupied surface, followed by Rodney Mountains (14,95%) and Retezat (12,05%). The lowest percentage belongs to the National Park Buila-Vânturarița (1,32%). Romsilva administrated 12 from the 13th national parks.

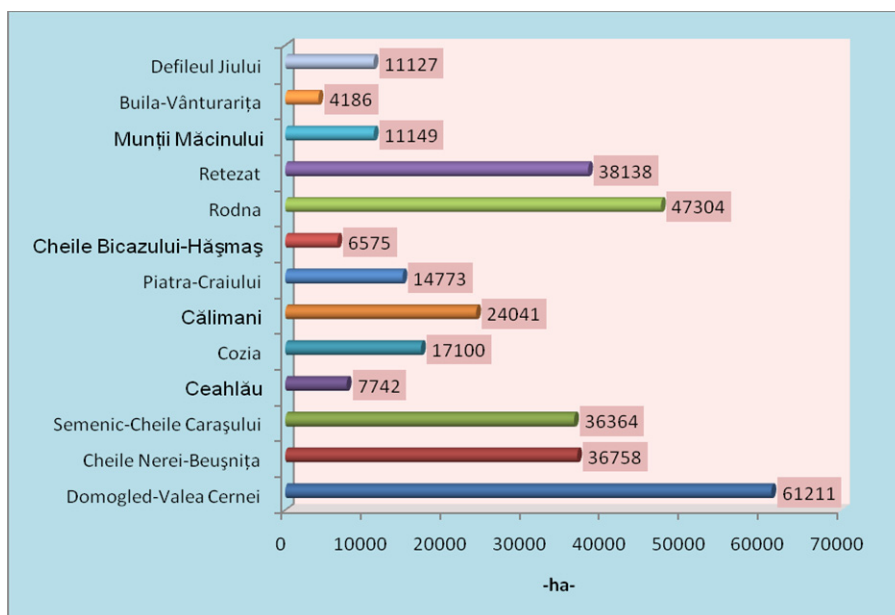


Figure no. 5. The surface occupied by the national parks of Romania

The national parks Domogled- Cerna Valley and Buila-Vânturarița are at different poles according to their size, respective 61211ha and 4186 ha.

c. There are 14 natural parks and their surface is of 760 757 ha. They correspond to the V IUCN category – “Protected landscape: protected area, mainly administrated to preserve the landscape and the recreation”.

The natural parks from Romania

Table no. 2

No. crt.	National park's name	District	Surface		Administration	Proclamation year	% from the total surface of the country
			(ha)	% from the total surface of the natural parks			
1.	Bucegi	Prahova, Braşov, Dâmboviţa	35700	4,69	Romsilva	1990	0,15
2.	Porţile de Fier	Caraş-Severin, Mehedinţi	115665	15,21	Romsilva	2000	0,49
3.	Apuseni	Cluj, Bihor, Alba	76064	10,00	Romsilva	1990	0,32
4.	Grădiştea Muncelului-Cioclovina	Hunedoara	38184	5,02	Romsilva	2000	0,16
5.	Balta Mică a Brăilei	Brăila, Constanţa, Ialomiţa	24555	3,24	Romsilva	1979	0,10
6.	Lunca Mureşului	Arad, Timiş	17455	2,29	Romsilva	2004	0,07
7.	Lunca Joasă a Prutului Inferior	Galaţi	8247	1,08	The Environment Protection Agency of Galati	2004	0,03
8.	Comana	Giurgiu	24963	3,28	Romsilva	2004	0,10
9.	The Maramureş Mountains	Maramureş	133354	17,53	Romsilva	2004	0,56
10.	Putna-Vrancea	Vrancea, Bacău	38204	5,02	Romsilva	2004	0,16
11.	Vânători-Neamţ	Neamţ, Suceava	30818	4,05	Romsilva	2003	0,13
12.	The Superior Mureş Defile	Mureş	9156	1,20	Romsilva	2007	0,04
13.	The Geopark of Dinosaurs from Haţeg Land	Hunedoara	102392	13,46	The University of Bucharest	2004	0,43
14.	The geopark Mehedinţi Plateau	Mehedinţi, Gorj	106000	13,93	The District Council of Mehedinţi	2004	0,44
	TOTAL		760757	100			

Source: briefing according the Management Plans and the official web sites of the natural parks from Romania

From the 14th natural parks declared on the Romanian territory, the Maramureș Mountains has the biggest percentage (17,53%) from the occupied surface, followed by Porțile de Fier (15,21%) and the Geo-park Mehedinți Plateau(13,93%). 11 natural parks from 14th are administrated by Romsilva.

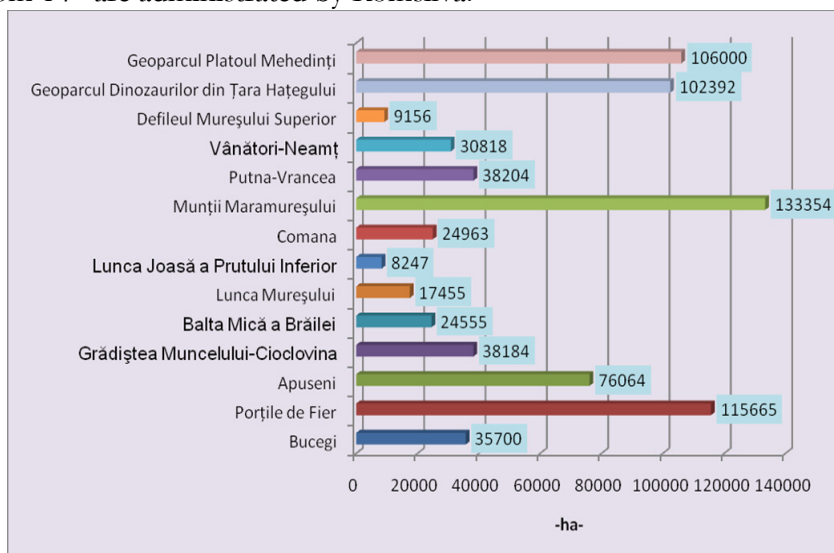


Figure no. 6. The surface occupied by the natural parks from Romania

It can be considered that the facts presented above confirm the appreciations concerning the existence of a valuable potential and some phases in the process of creating an integrate and unitary system of the protected areas.

At the same time, the analyzes made in detail have confirmed that, in many situations, there is a superficiality in the administration of these areas meaning that they are either not approved and therefore the management plans are not operational or the administration of the respective areas doesn't have the capacity (human, organizational, financial etc.) of implementing the management plans, their control and permanent adaptation.

4. The legal and institutional environment in the natural protected areas field

As a result of Romania's participation to the Summit from Rio in 1992, with a high level delegation, the issue of the environment in our country reached new dimensions and important steps were made in order to align the global effort to solve the important issues of mankind. In order to harmonize the Romanian legislation with the international one from the field, a series of international and regional conventions has been made according to the documents adopted at Rio. In this context, Agenda 21 with the Action Plan for the environment protection represented a constant preoccupation.

In the last 19 years, Romania has joined most of the international directives and agreements from the environment protection field and all the directives from the nature preservation field, their stipulations being applied as internal norms according to the constitutional provisions.

Our country has tried in a short period to recover the lost time and to align almost all the international agreements and conventions concerning any field of environment protection and therefore we remark a political will of alignment to the specific European legislation. The number of the normative acts approved is high compared to the time allocated, fact that shows that the Romanian authorities wish to respect the international legislation in this field.

However, there is a series of deficiencies in applying the normative acts mentioned before, a violation of these acts and also their wrong interpretation. More than that, there aren't sums allocated for the protection of the environment in any budget of incomes and expenses, at any level. We observe from the presentation above that there is a series of national plans and strategies to protect the environment and its different components, with a series of objectives and measures whose effects are still waited.

From an institutional point of view, the activity fields are varied and there are many organizations based on caves, mountain tourism, ecotourism, ONGs that activate for ecology, animal protection and others. It is proven in this way that there is in our country a strong interest for the environment and protected areas, however there is a lack of coordination and cooperation between the parts involved.

Other preoccupations in the field of natural protected areas belong to various non-governmental organizations who has the purpose to protect the environment and some tourism clubs and which have numerous initiatives of organizing and informing the population concerning the preservation of natural resources. Unfortunately, these actions need volunteers and this "volunteer" institution is unknown and not liked by Romanian people.

We can appreciate in the end that in our country there are preoccupations concerning the foundation, administration, preservation and protection of the reservations, national and natural parks, however insufficient or one step behind the evolution of the degradation processes, trespassing the law being "a quality" of Romanian people.

The efficiency of applying and creating a legal frame is determined by the existence of a proper institutional system. And from this point of view we can consider that there are created good conditions to achieve the strategic objectives concerning the development of protected areas.

5. Conclusions

One of the competitive advantages of our country, compared to the established destinations is the protection of the of the natural environment, untouched by human, Therefore, inside the natural reservations there are many species of plants and animals declared endemic or monuments of nature. Also, Romania is still

keeping in the untouched natural environment specimen of flora and fauna which are extinct in other countries or cannot be seen just in captivity. Because of the poor valuation of these resources till present, there have been made the premises of future development of tourism in the protected areas, fact which impose our country to become an important destination for this form of vacation.

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