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GLOBALIZATION AND EMERGING COUNTRIES

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***Abstract:** In this paper the authors have proposed the debate of two issues, namely globalization and the emerging countries and how one interacts with the others. Globalization, in addition to being discussed and treated in different ways in terms of all levels of our society, is an inevitable and irreversible phenomenon. Nothing of what is happening in our society remains uncontaminated by the scourge of globalization. Globalization has become a symbol of the times in which we live. It is considered that the driving force that directed evolution of the world towards this point is the "mirage" of free market capitalism with all the benefits resulting. By definition, emerging countries are countries in a strong development phase of activity compared with developed countries. They are developing countries with high GDP growth, with a relatively high level of industrialization and export of industrial products, high outward opening and expanding domestic market. The experience of emerging countries shows that it can be passed more easily through the economic crisis and they may provide a different answer to globalization.*

Key words: globalization, emerging countries, economic crisis

JEL Classification: O11, O41

1. INTRODUCTION

To address in full knowledge the issue debated here, we analyze from a semantic point of view the components of the work's title, globalization and emerging countries. Globalization is not a new process, but is the result of changes in the global economy that have emerged in recent years. The lifting of customs barriers, the emergence of multinational corporations and the increasing competition in the domestic and foreign markets, the increase in the importance of resources and how they are consumed, they all represent both causes and effects of globalization.

Globalization is the modern term used to describe the changes in societies and the world economy, resulting in highly increased international trade and cultural exchanges. It describes growth of trade and investment, due to the fall of barriers and the interdependence between states. In the economic context, it is commonly encountered the almost exclusive reference to the effects of trade and, in particular, to trade liberalization or free trade.

In addition to being discussed and treated in different ways in terms of all levels of our society, globalization is an inevitable phenomenon. We are not (either as individuals taken separately or as a people or nation) able to decide or to choose if we want globalization, if we accept globalization. Today, globalization is a fact, simply as that, and we are somehow predestined to live under its sign, under its spectrum and to cope with it. What is or what does it mean, in practice, this phenomenon that we used to call globalization? It is impossible to exhaust in a definition or in a formulation all resorts this reality involves.

In short, we may say that globalization is "the new, very well oiled and interconnected system", which replaced "the slow, stable, chopped system of the Cold War that dominated the international politics since 1945." With globalization, we have become and are "one river". On this basic and generalizing framework were then added all the other components that make up the postmodern society in which we live, the economic and financial, political, cultural and even religious ones. Nothing of what is happening in our society remains uncontaminated by the scourge of globalization. Globalization has become a symbol of the times in which we live. It is

considered that the driving force that directed evolution of the world towards this point is the "mirage" of free market capitalism with all the benefits resulting¹.

The notion of globalization entered in use in 1990 to describe a complex socio-economic and cultural process, whose main features are global diffusion of institutions and democratic practices, popularizing and spreading economic, financial and technological models. Moreover, globalization universalizes, involving the idea of unification of societies and thereby reaches to the relativity of national or community identities, the ones that a people or a community defines its existence. Thus appears the danger of homogenization, of the creation of a global culture as consumerism is, that becomes the measure of all things in a society devoid of meaning. On the other hand, globalization customizes, favoring individualism and pluralism, which is expressed both in a variety of faiths and denominations, and by a plurality of possibilities of religious commitment in the world. At the World Council of Churches Assembly in Harare (1998), globalization was recognized, in this ambivalent stance that universalizes and customizes the same time, as a challenge to find new ways to involve the Church in society.³

Of the most representative of the disadvantages of globalization we have to remember that the State will slowly lose its control over the economy and authority over the national territory. Multinational companies may impose at any time restrictions of activity in some countries, without governments being able to counteract. Workforce will be less protected in terms of job security, but highly trained individuals will be advantaged due to mobility. We notice already a polarization of countries with rich societies and countries with poor society. In the future, this polarization might accentuate as the advantages held by rich countries are becoming larger and differences in technology will increase, while poor countries will become unattractive in terms of foreign investment, except for the extent that they will provide significant benefits in terms of employment or natural resources.

By definition, emerging countries are countries that are in a strong development phase of activity compared with developed countries. Especially in Europe, where Western countries have weak economic growth, the emerging economies of Eastern Europe have had much higher increases. Of course, from a medium-term perspective they are countries that offer, especially in terms of banking, very interesting situations and so, by definition, are countries with significant growth. Emerging countries are developing countries with high GDP growth, a relatively high level of industrialization and export of industrial products, a high degree of openness to exterior and internal expanding market. Currently, emerging markets are the main engine of global growth. They have very important developmental capacities, but also a lot of vulnerabilities that will need to address in the coming years if they want to consolidate their situation and continue to reach the advanced countries. The main emerging countries are: Brazil, Russia, India and China. This list may be supplemented with South Africa, Mexico, Indonesia.

In recent years, emerging countries generally fared better than many developed countries, both in terms of economic growth, debt, or trade balance. However, even though many of these economies are still facing growth rates that could be the envy of many developed countries, they currently give signs of weakening, breaking, at least temporarily, the spectacular growth they have shown in recent years².

Although the current financial crisis was global in nature, a number of countries have resisted the shock much better than others, contributing substantially to the dynamic global economy. These countries called "emerging powers", have managed by policies initiated to achieve spectacular growth rates. In a recently held discourse at the Wilson Center in Washington, Robert Zoellick, President of the World Bank Group institutions warned on these changes in the dynamic global economy and politics, saying "the tectonic plates of the economy and political life are in motion. We can move at the same time with them, or we can continue to

¹ <http://ziarullumina.ro/pagina-de-istorie/globalizarea-simbolul-contemporaneitatii>

² FMI, *Mise à jour des Perspectives de l'économie mondiale*, juillet 2012

interpret the new world through the prism of the old. We must recognize new realities and to work towards it.”³

2. GLOBALIZATION AND EMERGING COUNTRIES

Depending on their specific socio-economic situation and the history of their rise to independence and sovereignty, emerging powers have limited or renounced the "external financial assistance", using mainly domestic resources and in the international economic relations and foreign investment policy they put emphasis on economic criteria and less on political considerations, expressing dissatisfaction with the rules which are unfavorable to developing countries. The pragmatic manner of governance of emerging powers revalues the role of a policy initiative in the economic development and recalls into focus the need to not let market forces to dominate politics, to take its place. The experience of these countries underlines the negative consequences of situations where it is not clear who runs the company - the oligarchs of finance and industry, or the politicians, devoted to the development of a nation.

This experience demonstrates that in the current phase of global development, political factors may own initiative when:

- (a) instead of behaviour dictated by a single doctrinal option, applying a pragmatic *mix of right and left policies* is preferred;
- (b) resort to *the selective use of protectionism* to protect their own market from the attempts of global corporations to "grab" it in a monopolistic manner;
- (c) *consider as legitimate the state intervention to limit abuses of venture capital* and strategies for economic development;
- (d) *promote economic incentive measures* and not bureaucratic measures leading to parasitism of economic life.

State capitalism -opportunity or utopia? Globalization and emerging countries are aspects that can solve, but may as well worsen the problem to the advantage of capital, which was dying. Companies that back the government in China account for over 80 % of the stocks of Chinese companies on the market. In Russia, the percentage is 62 %, companies who back the state in the economic relationship. It is clear that these countries are on the offensive and not just like that, but one feared for capitalists who want to overturn this situation and create a system as they did and do in countries like Romania.

The economic crisis is amplified instead of reducing its scale, although officials send optimistic messages. The cause of the crisis is the concentration of capital, especially the banking one, and the involvement of the political class into supporting the measures proposed by banks. IMF has played an active role in amplifying the crisis and its dispersion within the emerging countries, under the pretext of giving help. The situation hardly seems encouraging if we look at the statement "*It seems that we are witnessing a return to the excesses of 2007, even worse*", as recently said by William White, former chief economist at the BIS and one of the few international banking officials have warned about the dangers of explosive growth in lending before 2007, according to an article in the British newspaper The Telegraph. White also said that "all the imbalances are still here, and the share of total debt to GDP in developed economies is 30% higher than at the time". *In addition, the problem of bubbles in emerging economies has appeared*⁴.

According to the latest data from the BIS , for Q1 2013 , while banks' direct exposures towards developed economies fell by about 340 billion dollars to 21.3 trillion dollars, direct exposures to emerging economies increased by 266 8 billion, reaching a new record of 3.4 trillion. Note that the economies of emerging countries have a growing exposure, while

³ Zoellick R. „The End of the Third World? Modernizing Multilateralism for a Multipolar World”. Speech held in 14.04.2010.

⁴ <http://decantare.wordpress.com/category/economie/globalizare-ue/>

developed economies tend to a decrease in exposure. This means that money is directed towards investments in emerging countries, where specific items can be purchased, such as deposits, land and forests, which will increase their value over time.

With no significant results in terms of economic restructuring, the monetary explosion in recent years confirms that "*we cannot solve problems by using the same kind of thinking we used when we created them*", as Albert Einstein once said.

The real solution to the current crisis is not increasing centralization and coordination in the global economy, but decentralization and economic cooperation. The new global economic structure cannot develop on the monetary basis of the last four decades, a system characterized by a pyramid scheme of paper money, built around the dollar. Ignoring Einstein's wisdom sample above, authorities seem to confirm another dictum of his: "*Insanity is doing the same thing over and over again, expecting different results.*"

Boston Consulting Group (BCG) has very recently published its latest survey, "New Global Challengers", whose conclusion leaves no room for ambiguity: on the global arena there are new contenders to world supremacy: is the new generation of companies - emerging countries brand. There are 100 such companies in 16 emerging and developing countries which, according to experts, will be able, in a not too distant future, to change the world economic order. The 100 identified champions of BCG show superior performances to those in the European countries and the U.S. They have achieved a global turnover of 1,300 billion dollars in 2009, ie an average of 13 billion dollars for each company.⁵

3. CONCLUSIONS

With globalization, we have become and are "one river". On this basic and general framework were then added all the other components that make up the postmodern society in which we live: the economic and financial, political, cultural and even religious ones. Nothing of what is happening in our society remains uncontaminated by the scourge of globalization. Globalization has become a symbol of the times in which we live. It is considered that the driving force that directed evolution of the world towards this point is the "mirage" of free market capitalism with all the benefits resulting. The current financial and economic crisis, although having a global character, a number of countries have faced the shock much better than others, substantially contributing to the dynamics of world economy. It is about the emerging countries.

The experience of Brazil, China, India and other emerging powers is a good example in the *policy of funding sources, by the concern for the formation of their own resources*, towards stimulating exports, intelligent exploitation of own resources, development of services market and encouraging research. The real solution to the current crisis is not increasing centralization and coordination in the global economy, but decentralization and economic cooperation.

The pragmatic manner of governance of emerging powers revalues the role of a policy initiative in the economic development and recalls into focus the need to not let market forces to dominate politics, to take its place.

The experience of these countries underlines the negative consequences of situations where it is not clear who runs the company - the oligarchs of finance and industry, or the politicians, devoted to the development of a nation.

⁵ <http://incomemagazine.ro/articles/statele-emergente-inving-tarile-dezvoltate-la-redresarea-economiei-si-la-increderea-in-viitorul-globalizarii>

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SOME CONSIDERATIONS ON FINANCIAL CRISIS IMPACT IN EASTERN EUROPEAN COUNTRIES

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Abstract: *The paper investigates the causes and consequences of the crisis on five Eastern European countries, namely the Czech Republic, Hungary, Poland, Romania and Russia, with the purpose of identifying the common points and the differences between these economies in terms of crisis impact, with an accent on their capital markets. We also take a look at a major sign of crisis in capital markets: increases in returns' volatility. Our findings indicate that although the countries under scrutiny have displayed somehow different paths of economic development before the crisis, they were affected, to a higher or smaller extent, by the financial crisis. Also, the crisis was felt in these countries, at least in terms of impact on capital markets, with different lags: in some of these countries the crisis hit at beginning of 2008, while in others signs of the crisis were visible only towards the end of 2008.*

Keywords: Eastern Europe, crisis, stock market, volatility

JEL (Journal of Economic Literature) Classification: F00, G01, G15

1. INTRODUCTION

The emerging economic and financial globalization in recent years has been much more rapid than our understanding of all ingredients associated with this phenomenon of globalization. Today all individual markets are more and more interconnected and integrated, and this is the reason why the term "global market" is becoming more relevant day by day. This reasoning is also valid for capital markets worldwide. The integration of financial markets has become a major subject for contemporary economists that consider that the phenomenon of globalization and integration is best illustrated in these markets. The subprime crisis that was born in 2007 in the United States of America rapidly burst into the worst global financial crisis after the Great Depression, affecting countries worldwide. This paper investigates the causes and consequences of the crisis on five Eastern European countries, namely the Czech Republic, Hungary, Poland, Romania and Russia, with the purpose of identifying the common points and the differences between these economies in terms of crisis impact, with an accent on their capital markets.

2. AN OVERVIEW OF CRISIS IN EASTERN EUROPEAN COUNTRIES

Eastern European countries members of the European Union (EEC) – namely the Czech Republic, Hungary, Poland, and Romania - have pursued a distinctive model of development since the beginning of their transition. Their approach has been based on political and economic integration with the EU, including institutional development, trade integration, financial integration and labor mobility. The low level of physical capital, the prospect of eventual EU integration and the related improvement in the business climate, the generally highly educated labor force and low level of wages, and finally, the low level of domestic credit offering the potential for substantial credit expansion were the main supply-side factors for capital flows into these countries. Capital inflows have indeed exploited and also fuelled the economic growth potential of these countries and consequently Eastern European countries have reached high

levels of integration.

This development model has led to a remarkable increase in total factor productivity (TFP). Total factor productivity growth in these countries during 1995-2005 was faster than in any other region of the world although it slowed during 2005-08. While the development model of these countries had many common features, when considering various indicators different groups within the region can be identified.

In Poland and the Czech Republic the average current account deficit has remained reasonably low in the run-up to the crisis despite the existence of a strong negative relationship between GDP growth and current-account imbalances before the crisis. In contrast, the current account deficit in Romania and Hungary was very high (Darvas, 2010).

There are many other factors that differentiate between countries in the region (Becker et al., 2010, and Darvas 2010). Specifically, external indebtedness in Romania rose much faster than in Poland or the Czech Republic owing to the accumulation of large current account deficits; capital inflows into real estate and financial services were dominant in Romania, while investment in manufacturing was much more significant in the Czech Republic, Hungary, Poland; gains in export market share was more pronounced in Poland, the Czech Republic, Hungary than in other countries; inflation was higher in Romania and Hungary than in the remaining two countries; real interest rates were lower in countries with higher inflation rates; credit growth was much faster and the composition of credit was highly biased in favor of foreign currency loans in Romania and Hungary than in the other two countries; housing price booms emerged in Romania, while housing price increases were modest in the other three countries; the real exchange rate appreciation rose strongly in Romania, and less in the other three countries.

Similarly, nominal interest rate convergence and higher inflation pushed down real interest rates in all Eastern European countries, but again with large variation across the countries. Low and even negative real interest rates in Romania likely contributed to the unsustainable credit and housing booms in this country, in addition to supply side factors related to foreign bank ownership and the improved legal environment due to EU admission (Darvas 2010).

As a consequence of these developments, and in particular of high external indebtedness and large current account deficit, Romania entered the crisis more vulnerable than many other emerging countries, including the largest economies in the region, Poland and the Czech Republic. Hungary was also vulnerable due to low confidence in its economic policies, high external debt, large foreign currency loans, and slow economic growth since the mid 2000s. Exchange rate policy had also a crucial importance. Fiscal policy was less of a cause, even though most countries followed pro-cyclical policies before the crisis. In many countries, expenditure was growing very rapidly driven by demand-boom fueled revenue surge (Darvas, 2010). Domestic financial regulation and supervision may have not been cautious enough before the crisis, but there is anyway little room for domestic regulatory measures in a financially integrated environment (Becker et al., 2010). The sometime reckless lending practices of banks certainly had played a role.

Until the third quarter of 2008 - the collapse of Lehman Brothers, no Eastern European country was hit by the crisis (see Figure 1), but the disruption of financial markets after the collapse of Lehman Brothers, the rapid collapse in global trade and the bearish market sentiment, sent most of the world's economies into a slide. This region was particularly hit: in fact it was the hardest hit (along with former Soviet countries). The economic outlook was revised downward many times and GDP fell substantially in several Eastern European countries. The depth of the output fall and the shape of the subsequent recovery in the Eastern European countries were remarkable. Poland has avoided a recession, but in other countries in the region the speed of recovery was either modest or had not yet started by the first quarter of 2010.

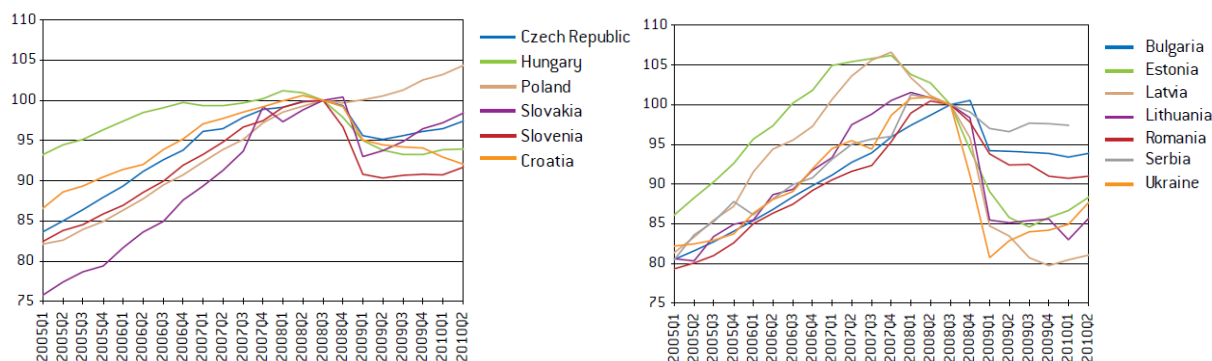


Figure 1: Quarterly GDP in Eastern European countries, 2005-2010

Source: *Becker et al., 2010*

Eastern European countries have been generally badly affected by the global financial crisis and economic downturn in 2008. The impact on growth has varied but weak demand for commodities and exports, as well as the drying-up of international liquidity had its repercussions. As elsewhere in the world, businesses and consumers faced challenging times. The scale of the financial crisis of 2008 and the subsequent recession are clearly evident from the data presented in Table 1.

This shows dramatic falls in GDP in Hungary and Romania, significantly above the EU average of 4.2 percent, although Poland and the Czech Republic saw slight increases in their GDP. At the same time, in all four CEE countries government deficit was higher compared to the EU average, and unemployment rose to higher levels compared to EU in Hungary and Poland and remained at values below the EU average, but still high, in Romania and Czech Republic.

Table 1: Selected economic indicators, 2009/2010

Country	Real GDP growth percentage (2009)	Government deficit as percentage of GDP (2009)	Unemployment (Q1, 2010)
Hungary	-6.3	-4.0	10.4
Czech Republic	-4.1	-5.9	7.4
Poland	+1.7	-7.1	9.6
Romania	-7.1	-8.3	7.4
EU 27 average	-4.2	-3.9	8.9

Source: <http://ec.europa.eu/eurostat>

The crisis hit the Central and Eastern European countries in the EU through two channels. A massive contraction of lending was triggered in financial institutions exposed by toxic debts, which, with the crash of property prices in some host countries, reduced the willingness of financial markets to finance sovereign debt (Mitra et al., 2009). The subsequent recession reduced demand for exports in Western Europe, having a negative impact on production and employment in small economies like the Czech and Slovak Republics, and Estonia and Hungary where exports accounted for 70 and 80 percent of GDP in 2008. To a lesser extent, this was also the case for the larger economies of Poland and Romania.

One of the impacts of integration with the EU and global economy was the domination of the banking systems of CEE by mainly Western European or US banks and finance companies. Capital inflows were larger in this part of Europe and fell more severely during the crisis. Therefore risk was transferred from Western European parent banks to affiliates in countries of CEE. The growth of credit was driven by households borrowing excessively trying to boost their living standards, and fuelled by the ability to borrow in foreign currency with a lower interest

rate and longer payback period than local finance. The period from 2003 to 2006 was a period of historically high global liquidity. Lending to ordinary people in these economies in foreign currencies was analogous to lending to poor people in the US—the so-called subprime market—where banks built up profits by lending to people irrespective of whether they could repay their debts.

In general the integration of these economies with the European and global economies has shaped the nature of their vulnerability, but in the same way that the crisis has unfolded in different ways in economies of Western and Southern Europe, its scale and nature have been different in the former Communist countries of the EU.

Previously we have considered the case of the countries belonging to the European Union, excluding Russia. The economic and financial crisis that raged across the globe in 2008–09 hit the Russian economy hard too. Hailed as an economic miracle until 2008, the country saw its GDP tumble by 8 percent in 2009 and the stock market plunge by 80 percent from May to October 2008. A sharp decline in the price of oil and other commodities as well as capital outflows put the economy in a tailspin. Since the global crisis hit, some of Russia's largest companies have gone bankrupt, Russia has spent \$200 billion of its foreign currency reserves to stabilize the ruble, and unemployment has surged (Aslund et al., 2010).

Regarding Russia's economy, Gaddy and Ickes (2010) grouped in three main categories the main elements leading to the Russian financial crisis. First, the crisis has reminded the world of how deeply dependent Russia is on oil and gas. Looking at the period before the crisis, during the crisis, and now in the rebound, the picture is unambiguous. Very few important developments, positive or negative, cannot be traced back to fluctuations in the volume of wealth—the rents—that accrue to Russia from these resources. Second, Russia is addicted to the resource rents. The concept of addiction means more than dependence alone: addiction refers to a specific condition in which there is an imperative to allocate rents to the backward production structure that Russia inherited from the Soviet Union. Addiction's most significant feature is that it is self-reinforcing, which means that it continually deepens and reproduces backwardness and inefficiency in the Russian economy. Third, Russia, like all resource-abundant economies, has a specific system of management of its resource rents. Because of the overwhelming importance of the rents in Russia, the rent management system is the key to the entire political economy. Fundamental changes in the political economy of Russia are necessarily changes to the rent management system.

3. FINANCIAL CRISIS IMPACT ON CAPITAL MARKETS

When we consider the crisis impact on financial markets in the region, the simplest and quickest way to observe it is to take a look at stock market indices and returns before and after the crisis. Figure 2 presents the evolution of indices for the five countries analyzed in our study, from 2003 to 2010. We also take a look at a major sign of crisis in capital markets: an increase in volatility.

All the indices values were provided by Morgan Stanley Capital International, except for Romania, where the Bucharest Stock Exchange BET index was used. The indices are denominated in US dollars and cover the January 31st 2003- January 3rd 2011, counting 2067 observations for each country. A visual description of the data is synthesized in Figure 2.

The five selected East-European countries' capital market indexes have been appreciating on a merely constant trend until the crisis. Hungary and Romania attained a maximum price for 2003-2011 first, in July 2007, being followed by Poland in October 2007, Russia in May 2008, and by the Czech Republic in July 2008. These countries were affected by the global financial crisis, which raised concerns about the sustainability and desirability of their unique pre-crisis growth model, primarily based on deep financial and trade integration (excluding Russia). But a closer look at these countries suggests that there is considerable heterogeneity within the region:

in some of the countries pre-crisis growth was characterized by the buildup of a strong tradable sector, but in other countries investments were biased toward non-tradable sectors, and in particular, toward the real estate sector, and growth was accompanied by growing internal and external imbalances.

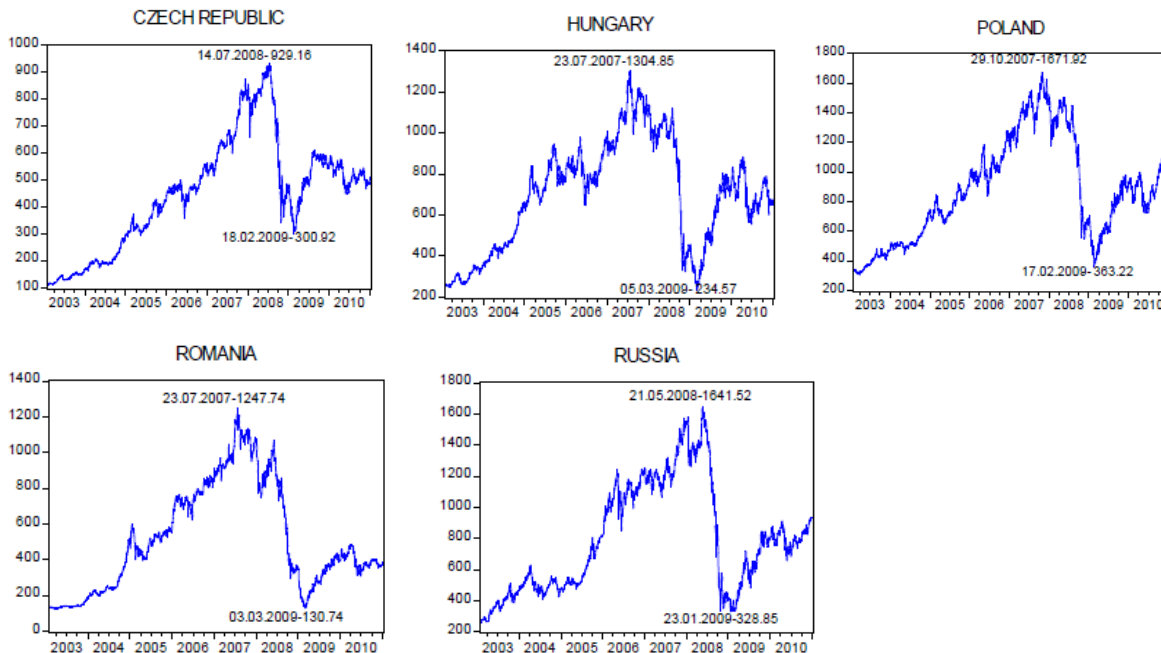


Figure 2: Stock market indices in Eastern Europe, 2003-2010

All countries have been affected by the crisis in the same period – 2nd and 3rd trimester of 2008 - a year distance from the emerging of the subprime crisis in the USA. Russia is the first country to hit bottom rock, in January 2009, its stock market index reaching almost the value of the beginning of 2003, depreciating by approximately 500%. Next are Poland and the Czech Republic, in February 2009. An important thing to be kept in mind is that within the five countries selected, the Czech Republic was the least affected by the crisis, as pointed by the graph. It is the only country that has seen its capital price index to depreciate only by 300%. Hungary and Romania attained their minimum in which is considered the stock index in March 2009, the prices reaching a value smaller than the ones in the beginning of 2003.

Figure 3 illustrates the logarithmic returns of the stock market indexes for Romania, Hungary, Poland, the Czech Republic and Russia. As expected, returns during the crisis have been accompanied by an increase of volatility starting with the end of 2008 until the end of 2010 - beginning of 2011 when they adjusted to fit the pre-crisis trend. The graphs emphasize the fact that the Czech Republic was the least affected by the crisis and was the first to start recovering from the global financial crisis.

3. CONCLUSIONS

Our paper investigated the main features of the financial crisis on five Eastern European countries - Czech Republic, Hungary, Poland, Romania and Russia, with the purpose of identifying similarities and differences between them in terms of crisis impact, with a focus on their capital markets. We also observed increases in returns' volatilities as a major sign of crisis in capital markets. Our findings indicate that although these countries have pursued somehow different paths of economic development before the crisis, they were affected almost simultaneously by the financial crisis. Also, the crisis was felt in these countries, at least in terms

of impact on capital markets, with different lags: in some of these countries the crisis hit at beginning of 2008, while in others signs of the crisis were visible only towards the end of 2008.

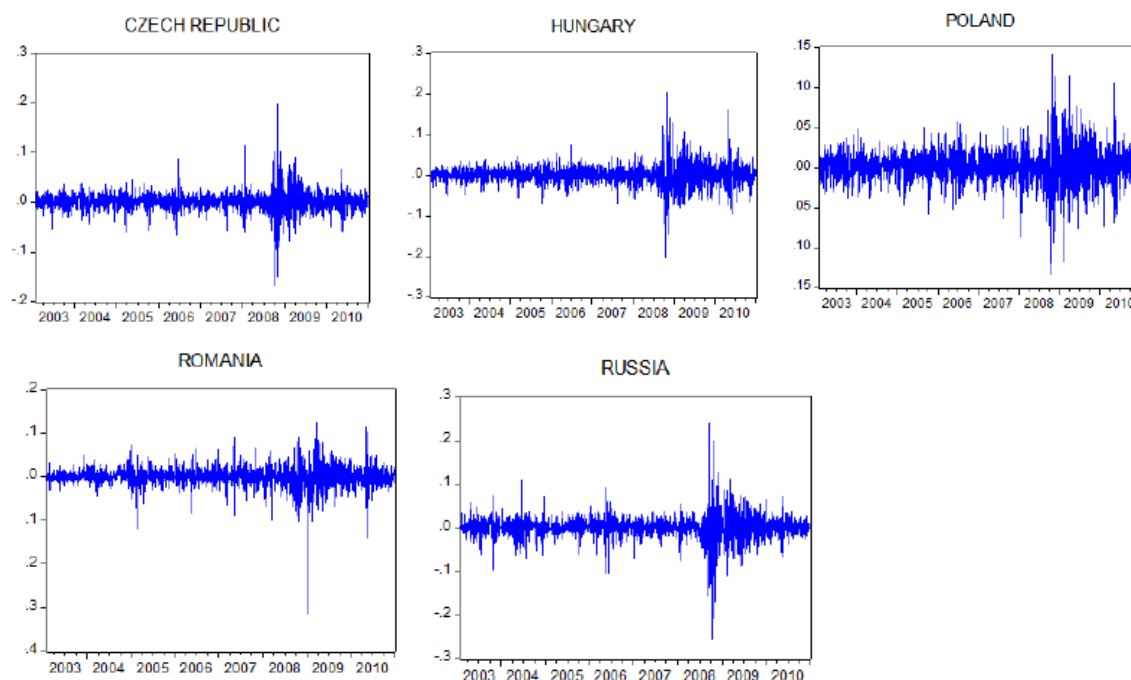


Figure 3: Stock market returns, 2003-2010

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CONSIDERATIONS ON THE COMPANY'S PRODUCTION ACTIVITY ANALYSIS

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Abstract: *One of the main functions of the company is the production function. Production includes all activities directly related to the selling of goods, works or services forming the company's object. The activities that make up this function can lead to different volumes of financial resources committed and locked at different profit rates and volumes. The main objective of the economic analysis of production aims the achievement of value and physical indicators, the structure and quality of production, production *rhythmicity* and its delivery, aiming to establish the factors that have caused deviations from the program and the discovery and mobilization of internal reserves. Another objective is to establish the correspondence between the level of programmed indicators and actual production capacity of the company, to draw this capacity near the maximum capacity possible. Based on these considerations, this paper aims to capture some aspects of the production analysis methodology.*

Keywords: *production, structure, indexes*

JEL (Journal of Economic Literature) Classification: D24, M11

1. INTRODUCTION

One of the main functions of the company is the production function which can be defined as the work processes within the company through which labour items are transformed into finished goods, semi-finished goods and services and technical and material, organizational and service conditions required for the proper conduct of production are directly created (Nicolescu, Verboncu, 1999, p 288). In other words, production includes all activities directly related to the execution of goods, works or services forming the company's object of activity. From an organizational perspective, the production function includes the following activities: preparation of technical-economic production; programming, launch and control of production; production execution; technical quality control; maintenance and repair of equipment; implementation of auxiliary production (Bogdan, 2002, p. 50).

A mutation imposed by the transition to a market economy is the liquidation of the so-called "dictatorship of the manufacturer" (Bogdan, 2002, p 50). We are witnessing a process of transition from manufacturing what was ordered by the plan and distributions, management not being interested in how financial resources are provided, to a production process carried out in a free market, a demand based on the consumer's free decision and under profitability conditions imposed by equity owners. The activities that make up this function can lead to different volumes of financial resources committed and locked at different profit rates and volumes. In the programming activity and not only, the contractor or the investment project manager should identify the specific needs, such as, for example, the specific requirements of soil, the plant type, which must be completed and machinery. There should be analyzed aspects related to: the natural environment, the ecological impact; social and economic policies; government stimulus policies and restrictions; industrial infrastructure conditions (Guță; Drigă, 2009, p. 1) etc.

Actual organization of production processes in various forms directly depends on the number of names of products manufactured, on the production volumes which are made of each kind of product, on establishing the manufacturing nomenclature. All these parameters are related to the type of industrial production (Dima, Man, 1999, p 269-276)

The principles and methods used in production management differ according to the nature and quantity of products manufactured the technological specialization of industrial subdivisions and other elements that characterize the typology of industrial production. For this reason, the definition and characterization of the types of production is particularly important for choosing the most appropriate models for management of industrial production, compared with the characteristics of production processes that occur (Dura, Isaac, DRiG, 2010, p 126).

Differences between different types of production influence the workload jobs and therefore the degree of specialization of each job.

If specific production activities will not be designed and built from the essential objective pursued by the company in the market economy - reducing funds committed and maximizing profit - all the efforts made later on by them may have only minor effects. Therefore, the necessary conclusions can be drawn, namely the need for all personnel whose duties are problematic preparation, launch and production tracking, knowing and complying with at least minimal knowledge of the cost, rotation and the cost of capital.

2. PHYSICAL PRODUCTION ANALYSIS

Physical production can be defined as all values resulting from productive industrial activity that can be put into economic circulation (Margulescu, 1994, p 89). The analysis of the above mentioned is important for following the way of fulfillment of contractual obligations, ensuring consistency of supply and demand (Spătaru, 2004, p 97).

Based on the obtained physical production, the company can determine the degree to which available resources were used and the customer satisfaction in terms of ability to honour contracts. Also, consistency of supply and demand can be ensured.

In the operational analysis of physical production achieving manufacturing program within each organizational divisions of the company is envisaged. Thus, any information gathered during processing (daily, monthly, quarterly or annually), the analysis seeks to establish the physical output per product in the period considered compared to the previous period.

With regard to the automatic data processing, it can be operated with the *principle of exception*, showing only the sorts for which the provisions were not made or to which this was overcome. For this purpose, it is necessary to specify a particular limit that is considered an exception (for each product stating the causes of deviations). Listing products can be done in the order they are listed in the manufacturing program or depending on the percentage of failure of the program (i.e. overflow) (Margulescu, 1994, p 90).

The main objectives of the program analysis on total production and assortment can be presented as follows:

- highlighting the extent to which production schedule was met, both total and on assortments;
- determining the causes that led to the emergence of deviations from the schedule provided;
- formulating measures and solutions to prevent the future occurrence of deviations from the required level of production program;
- implementing new solutions and following their degree of effectiveness.

To characterize the performance of the production program the following ways can be used (Işfănescu et. All, 1999, p 76):

- individual indexes to carry out the production program;
- the average coefficient of assortment;
- coefficient of nomenclature.

Each of these processes illustrates the essential aspects of physical production program performance.

Individual indexes to carry out the production program allow the confirmation of certain isolated situations and aim to provide answers on the implementation of the program of manufacturing on each type and the extent of achievement. However, given that this process does not provide an overview on the progress of the manufacturing program on assortments within the company, it has a small degree of utilization.

The calculation of *medium coefficient per assortment* (K_s) is used to characterize the degree of realization of the total manufacturing program of the enterprise, in the case of heterogeneous production (Vâlceanu et. All, 2004, p 90).

The ways to determine *the average coefficient of the assortments* are (Ișfănescu et. All, 1999, p 77):

$$a. \quad K_s = \frac{\sum_{i=1}^n qi_{\min} \times pi_o}{\sum_{i=1}^n qi_o \times pi_o} \quad (1)$$

$$b. \quad K_s = \frac{\sum_{i=1}^n gi'_o \times Ii_o}{100^2} + \frac{\sum_{i=1}^n gi''_o}{100} \quad (2)$$

$$c. \quad K_s = 1 - \frac{\sum_{i=1}^n (\Delta qi \times pi)}{\sum_{i=1}^n qi_o \times pi_o} \quad (3)$$

where:

$\sum_{i=1}^n qi_{\min} \times pi_o$ = recalculated value of production within the provisions, determined by comparing the amount realized on each assortment to the value stipulated in the program and taking into account the minimum level of the two (according to the indeterminacy principle of compensation);

g' = the weight of the assortments to which provisions were not made;

g'' = the weight of the assortments for which the program was realized and exceeded;

I_q = index of realization of provisions for each assortment;

$\sum_{i=1}^n (\Delta qi \times pi)$ = sum of negative deviations per assortment.

Taking into account the basic principle of determining the coefficient mentioned above, the maximum value of the average coefficient of the assortment may be equal to 1. Analyzing situations that may occur, we can highlight the following:

a. $K_s = 1$, when:

- the production of all assortments has been accomplished in a proportion of 100%;
- production program was met and exceeded on all assortments, regardless of the proportion of achievement.

b. $K_s < 1$, when:

- production program has not been achieved, both in total and on assortments, regardless of the proportion of failure to accomplish them;

- production program has been achieved and exceeded on the total, but at least for one assortment the level provided was not achieved.

Annually speaking, production program must constantly adapt to the demands. The smaller the deviations, the more accurately predictions made by the company can be assessed.

Evolution of the average coefficient of assortment reflects the proportion of carrying out of the program but does not provide a conclusive picture of the number of assortments to which the program was achieved. To correct this situation, it is recommended to determine the coefficient of nomenclature (K_n), according to the relationship:

$$K_n = 1 - \frac{n}{N} \quad (4)$$

where:

n = number of assortments for which the program was not accomplished;

N = total number of assortments in the program.

3. ANALYSIS OF PRODUCTION STRUCTURE

Because the production program is completed in different proportions on assortments, changes in its structure are determined, a structure reflected by the weights of each type of assortment in the company's nomenclature of production in the total volume. Being expressed by the share of each assortment in the total production, structure is influenced by the methods of assessment. To highlight the type of structure change, it is thus necessary that, in addition to value assessment method, the other assessment methods – where possible – are used. Choosing a form or another is not random, but according to purpose. Failure to comply with such a principle leads to erroneous conclusions with profound implications for decisions that are adopted (Ișfănescu et. all, 1999, p 81).

To characterize the structure of production, the percentage of each assortment in total production is calculated. By comparing the percentages for each assortment, it can be seen whether or not the original structure of the production program was respected.

What interests the managers of an enterprise is the intensity of this phenomenon from one period to another, the causes that led to its occurrence so that in relation to it, the economic effects that the change in the structure of production can be appreciated. From this point of view, the structure of the production can be characterized by the *average coefficient of structure* (K_{st}), determined according to the relations (Mărgulescu, 1994, p. 96):

$$K_{st} = 1 - \frac{\sum_{i=1}^n |\Delta g_i|}{100} \quad \text{or} \quad K_{st} = 100 - \sum_{i=1}^n |\Delta g_i| \quad (5)$$

where:

Δg = change of percentage of each assortment.

This model explains the intensity of production structure change.

$$K_{st} = \frac{Q_p}{Q_r} \quad (6)$$

where:

Q_p = value of production on the account of the structure provided;

Q_r = value of actual recalculated production.

The model requires the following *steps*:

- recalculation of production obtained according to the structure provided, which can be done by applying the provided percentage of each assortment to the total value achieved or by multiplying the average production program implementation index with the value provided for each assortment.
- determining production on the account the programmed structure, by comparing the actual value per each assortment with the recalculated one, taking into account the minimum value.

Performing a correlated analysis of the average coefficient of assortment and of the structure coefficient, the following situations can be emphasized (Vâlceanu et. all, 2004, pp. 96-98; Spătaru, 2004, p. 110):

- a. $K_s = 1$ and $K_{st} < 1$: shows that production program was achieved on all assortments, but in different proportions;
- b. $K_s < 1$ and $K_{st} = 1$: a theoretical solution shows that the program was not achieved for any assortment, but in the same proportion;
- c. $K_s = 1$ and $K_{st} = 1$: theoretical solution shows that shows that the program was met and exceeded in all assortments in equal proportions;
- d. $K_s < 1$ and $K_{st} < 1$: shows that the production program was not achieved at one or more assortments.

4. OPERATIONAL ANALYSIS OF PRODUCTION PROGRAMME IMPLEMENTATION

In order for the activity of any company involved in a production activity to take place normally, the development of programs through which demand is correlated with offer is required. This is required by virtue reducing, as much as possible, stocks, therefore reducing the additional costs resulting from a manufacturing process more beyond necessary.

To schedule production activities, the following activities are mainly carried out (Bărbulescu; Gavrilă, 1999, p. 186):

- receiving, handling and releasing orders;
- optimization of assortments' structure made on the short-term;
- preparing production programs;
- allocation of work in production program in time and space;
- continuous employment of jobs;
- minimizing production stocks;
- programming auxiliary elements of manufacturing;
- providing dispatching, tracking and updating of production programs;
- complying with delivery terms.

We mention that all these activities form, along with many others, the object of study of production management and have been mentioned in this context for better understanding the concept of "production programming". By the operational analysis of the production program, it is mainly aimed to provide to the enterprise's management information relating to compliance within time, space and on assortments of programs developed in advance.

The organization of practical analysis work requires establishing certain levels, in the sense of organizational structures, for which the analysis and its periodicity must be carried out. In general, the lower it descends to the lower levels of the pyramid, the reduced the lapse, leading to daily analysis or even analysis during the day (Ișfănescu et. all, 1999, p. 85).

From the methodological point of view, the analysis involves a comparison between the actual result and the expected one for the period considered, at the level of that organizational structure. In finding deviations (positive or negative) from the provisions, causes that led to them must be specified.

An important aspect of the analysis of production program aims to achieve it on time subdivision, known in economic theory and practice as the rhythm of production. Conducting rhythmic activities is a prerequisite for the rational use of all categories of resources and increasing, on this basis, the efficiency of invested capital (Mărgulescu, 1994, p. 102).

Rhythmicity of the production activity involves the way in which the objectives programmed on time subdivisions are carried out (day, decade, month, quarter), which are selected according to the nature of the production and manufacturing cycle. Rhythmicity analysis has as main objectives: characterization of the current situation, its progress compared to previous periods, determination of causes that led to non-rhythmicity and the effects produced.

In the operative analysis of achieving the production program, for the characterization of production rhythmicity, several methods can be used, of which the most commonly used are:

- a. production indexes on time subdivisions. If they present significant variations compared with the average index over the entire period, then there is the non-rhythmicity situation;
- b. production percentage on time subdivisions;
- c. synthetic coefficients of rhythmicity, determined as follows (Spătaru, 2004, pp. 114-115; Vâlceanu et. all, 2004, 1999):

$$K_r = \frac{100 - \Delta g}{100} \quad (7)$$

where:

Δg = sum of weight's deviation on time subdivisions, determined based on the relation $g_1 - g_0$

$$K_r = 1 - \frac{\Delta q}{Q_0} \quad (8)$$

where:

Δq = sum of negative deviations on time divisions;

Q_0 = value of programmed production.

$$K_r = 1 - \frac{1}{2x} \sqrt{\sum_{i=1}^n (xi - \bar{x})^2} \quad (9)$$

where:

\bar{x} = average production on time subdivisions;

xi = production on time subdivisions.

This model is used in situations where, given the specific activity, through the production workload on time subdivisions shows a number of variations. The rhythmicity coefficient is determined both for the scheduled level and for the achieved after accomplished one, later making a comparison between them. To avoid the development of a non-rhythmical production

activity, managers must ensure, both quantitatively and qualitatively, the necessary material and human resources in time and space, to avoid accidental shutdowns of equipment by checking them regularly, to conduct the necessary investments according to the scheduled program, to correlate the production programs to capacities, etc.

5. CONCLUSIONS

Changing the physical production, of its realization on assortments, respectively of the structure, is reflected on the following indicators – value of obtained commodity production, value of production sold, the cost of the product, the profit on the product, the total amount of profit, the production fixed costs for 1.000 lei, the expenses for 1.000 lei operating income, i.e. turnover, changing costs related to comparable commodity production, percentage change in the cost of producing comparable goods, operating profit for the output produced for sale or only the sold ones, the added value for obtained production, operating assets efficiency, return on resources consumed, commercial profitability rate (Mărgulescu, 1999, p. 94; Vâlceanu et. all, 2004, pp. 91-93).

The effects presented are not limited and their own separate analysis is required, to establish if they have been completed (for example the effect of changing the physical production over the amount of savings by reducing costs must be fully reflected in changes in profit), the causes of these failures, in order to establish the necessary measures for the future period.

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CONSIDERATIONS IN MIGRATION AND REMITTANCES IN MOLDOVA

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Abstract: *This paper analyzes labor migration and remittances as a current phenomenon in the Republic of Moldova. The aim is to investigate how migrant household are using money received and to recommend how remittances can be productively invested. To be more specific, the aim is to illustrate that the amounts received are used mainly for current consumption and are not used for investments. In order to test the research question, questionnaires, as primary data collection tool were distributed to 100 respondents who have at least one family member currently working abroad and who are remittances receivers. The obtained results met the expectations and led to the conclusion that there is a significant correlation between current ways of remittances distribution and efficiency in remittances utilization meaning that the more money will be used for current consumption, the less efficient they are used.*

Keywords: labor migration, remittances, productive investment, current consumption

JEL Classification: J21, J51

1. INTRODUCTION

According to Cuc (2005) “Labor migration and remittances have increasingly become a part of the global landscape, with profound economic and social consequences”. Moldova, a small, low-income country where an estimated third of the economically active population has been working abroad, is an interesting illustration of this trend (Cuc, 2005). Labor migration affects economical and social development of Moldova since 1999 (IOM, 2007). The most recent official figures point out that about 690.000 Moldovans are working abroad (Moldova National Bureau of Statistics, 2012), but these numbers are approximate as majority of them are working illegally so that the total number of immigrants is not provided. Economic slumps, political instability, high unemployment rate and collapsing incomes are the main reasons that lead to a large scale emigration from Republic of Moldova (Craciun, 2006). The phenomenon of migration is influencing the level of remittances sent by the migrants to the migrant-sending countries. Remittances have become a dominant factor as a major source of domestic financing in the economy, as well as the major source of financing of the households, who have at least one member working abroad. According to World Bank (2012) in 2011 the level of remittances as part of GDP were 22,86% which means that Moldova were on the fifth place in top of recipients of remittances. In other words, remittances constitute main part of the GDP and influence Moldova’s economic growth. Also in terms of the money transfers from abroad via official ways the numbers are increasing from 89.62 million USD in 1999 to 1,494.23 million USD in 2012 (National Bank of Moldova, 2013). These numbers does not include money transfers using informal channels such as putting money in an envelope and mailing it. Every third Moldovan household receives remittances and for every second among them money sent from abroad accounts for more than 50% of the total income (IOM, 2013). The research is taking place due to several problems which are considered up-to-date subject in Moldova: continuous labor migration, remittance uses by migrants and recipients, the financial infrastructure for remittances and efficient use of them.

Effects of migration are both positive and negative. According to IOM (2012) positive and negative trends can be generalized as socioeconomic effects determined by remittances as being positive and deterioration of human capital over the time as negative. Positive effects according to Ratha (2003) are flows of remittances which are used for productive investments by the Government and are the main source of income for migrants' households and also an important source of foreign currency for the country. In addition to the positive effects listed by Ratha, Ghencea and Gudumac (2004) specified other advantages for target countries such as higher competitiveness of goods and services as foreign labor costs are lower than local and qualified labor force imported from abroad saves professional education outlays. As for origin countries, Ratha (2003) mentioned productive investment of remittances encouraged by economic, fiscal and customs' policies and international labor mobility which can increase the flows of remittances to developing countries.

In macroeconomic context, the inflow of foreign currency generated by labor migration helps to compensate the trade deficit of the country and to support the national currency (IOM, 2012).

The main negative effect is related to "brain drain" which was recognized as a major problem for Republic of Moldova (IOM, 2012). This statement is confirmed by Hugo and Castles and Miller as the country's prosperity depends on its human resources' professional qualification. In consequence, highly qualified workers are attracted by high wages in developed countries so that less developed countries are challenged with a massive loss of young, qualified and innovative citizens. This problem affects especially medical and educational areas. Due to the fact that doctors and teachers in Moldova have wages lower than the country average, in the last couple of years public schools and hospitals have insufficient personnel. Also this trend severely affects rural areas where young teachers prefer to seek for a job abroad rather than working in the village. On the other hand this statement is contradicted by Cuc, Lundback and Ruggiero (2005) as the negative impact of "brain drain" has to be weighed against the positive impact of migration on human capital development due to the fact that returning migrants bring back their skills and work experience, thus boosting productivity.

Another important negative effect of labor migration is the impact on family structure and child development (Salah, 2008). Migrants, especially those who are staying abroad a longer period of time, have left behind their wife or husband in origin country which resulted in deterioration of family's morale (Salah, 2008).

Ghencea and Gudumac (2004) analyzed five dimensions which illustrate the attractiveness of remittances for researchers:

Remittances constitute a more and more significant source of external financing for developing countries. Remittances have occupied second place in terms of size after net financial flows.

Remittances- source for the middle income countries. It was demonstrated that the largest part of remittances are concentrated in lower income classes and higher income classes countries and not in poorest. Countries which are top migrants senders are India and China. The annual amount of remittances received in these countries are billions of USD. This is explained by high number of population and millions of emigrants living abroad.

Remittances -a stable source of foreign currency. Remittances constitute the least volatile source of financial flows for the developing countries due to the fact that they react less violently to economic shocks which prove their stability. For developing countries remittances are an insurance mechanism aiming to diversify portfolio of foreign capital sources.

Remittances -a source of subsistence. For small, developing countries remittances are the main source of income. Migrants' remittances help these countries to survive.

Remittances – a substitute of international assistance. For people from poor countries remittances are the main source of existence, therefore remittances are substituting international assistance. So, actually remittances and not the local authorities are key providers of foreign assistance.

Remittances in the developing countries are of great interest. Findings are presented in the subheading below.

Republic of Moldova as a migrant-sending country is valuable for analysis as it is included in “Top 10 recipient’s countries of migrant’s remittances as a share of GDP”. The data provided by World Bank (2012) puts Moldova on the 5th place among the top remittance receiving countries (see Figure 3). Remittances represents around 23% as percentage of GDP, the number which decreased from 36,2% in 2006. (IFAD, 2008). Also World Bank (2012) assumes that the growth of remittances in 2013-2015 will be strong

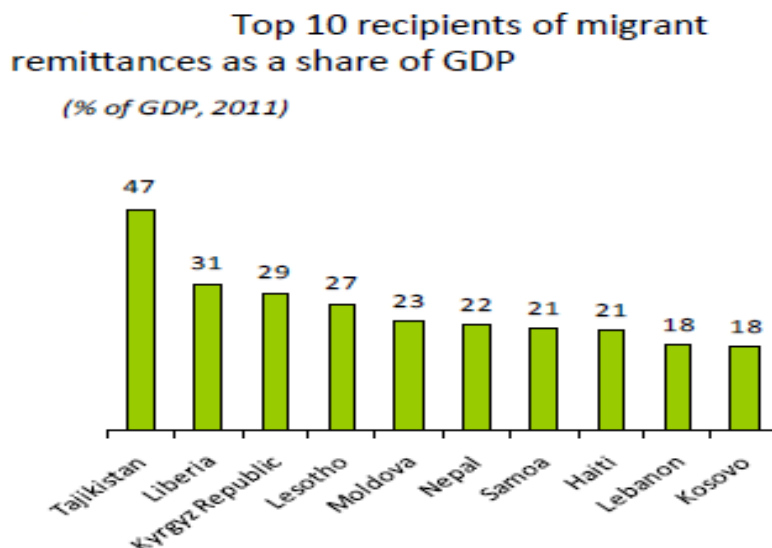


Figure 1. Top 10 recipients of migrant remittances as a share of GDP

Source: World Bank (2012)

In terms of the money transfers from abroad via official transfer ways the numbers are increasing from 89.62 million USD in 1999 to 1,494.23 million USD in 2012 (National Bank of Moldova, 2013) (See Appendix). These numbers do not include money transfers using informal channels such as putting money in an envelope and mailing it. The remittances amount in 2012 is the highest one since 1999 (except 2008 when the global financial and economic crisis severely affected the amounts remitted from 2009 onwards). Also the data shows that for 2013 (Quarter I and Quarter II) the amounts remitted are close to those in 2008 meaning that the numbers for 2013 could attain the highest value since 1999

One of the main factors which influence the remittances amount sent is migrants' remittance behavior. According to IFAD (2008) analysis, not all the migrants are remitting money and differences in remittance behavior is based on characteristics such as: age, gender, educational and income levels and occupation. Migrants who have strong linkages with their family in the home country and who are of working age are generally remitting more. On the other hand, migrants who are joined by their families abroad and are not planning to return for a longer period of time tend to send less remittances. In terms of variations in remittance behavior Craciun (2006) analyzed remittances from two different points of view: *altruism and self-interest*. First category is guided by the care for migrants' families and friends and willingness to help them. This trend is observed for poor families as they find the main priority in helping their families. Second category is mainly guided by the willingness to obtain benefits from the funds sent back home. Usually self-interest is observed among middle-income households, who want to demonstrate laudable behavior as an investment for the future or with the intent to return home.

In addition to remittance behavior, IOM (2007) pointed that differences in remittance behavior include migrants' earnings, their motivation, the seasonality of the job, the cost of travel to the host country and the cost of living in the host country. Migrants that are working in

EU countries have higher wages and tend to remit more than those who work in Russia because CIS migrants have seasonal jobs and spent in the host country a shorter period of time. Also CIS migrants tend to remit a higher share of their earnings in comparison with EU migrants due to the fact that the time spent is shorter, the living and travel costs are lower (IOM, 2007). Seasonality of remittance flows are expressed by migrants' motivation to remit more on Christmas, New Year's Eve, 1 September and Easter. An example of migrants remittance behavior is presented in IOM (2013) survey analysis for migrants for are currently working in Italy. The results showed that more than 50% of the Moldovan migrants from Italy send in average 235 Euros per month to Moldova. This amount represents approximately 27% of the migrants' monthly income.

It was stated by IOM that in 2009, 1.3 million people or 35% of the population live in households that receive remittances.

The impact of remittances on socio-economic development at micro and macro levels has both positive and negative sides.

World Bank (2005) pointed that one of the most important effect of remittances is the reduction of the poverty in the poorest households. For the majority of the households remittances represent more than 65% of their income. As most of the households are using the main part of the amounts received for current consumption, it can be deducted that remittances are their main source of existence. Also many households are using considerable amounts of remittances for "passive investment" (house procurement or purchase of cars) and for special expenses such as medical treatment and educational fees.

Hence, migrant households own more assets than households without a migrant. IOM (2007) mentioned that household receiving remittances invest longer in their children's education with young adults more likely to enroll in universities. In particular, private universities are mostly financed through remittances.

Also households receiving remittances are more likely to make savings than non-receiving households and to use those amounts for productive investments.

The impact of remittances on poverty could be divided into two groups: for those households who have migrant-members working in European Union countries and households who have migrant-members working in CIS countries. The effects of remittances on poverty are bigger for families of the EU migrants as the amounts remitted are higher and the length of stay is usually longer.

Due to the fact that Republic of Moldova is an agricultural country and most of the migrants are coming from rural area, huge investments were made specifically in agricultural sector by returnees.

Other positive effects mentioned by IOM (2007) and supported by Kupets (2012) are:

- Cover of trade deficit balance by personal remittances;
- Improvement of the country's credit rating;
- Increased demand for consumer goods and real estate which contributes to the growth of such sectors as retail trade, real estate, medical and health care;
- Supply of funds to the domestic banking system via bank deposits;
- Creation of new jobs in origin country due to new investments funded by remittances;
- Promotion of economic development as remittances are representing 23% of GDP;
- Small businesses opened by the migrants who invested remittances in home country;

Even though remittances have positive effects on both households and economic development of Moldova, there are negative sides to be considered.

Salah (2008) discussed short-term remittances contribution as not only reducing poverty but also creating inequality by breaking down traditional families and community ties

Efficiency in remittances utilization is important for remittances receivers in order to gain future benefits for themselves and to encourage the development of national economy.

The economic growth of investments in national economy is based on increased consumer demands caused by remittances inflows, so, therefore it is short-termed (Mosneaga, 2007). So the direct investments from remittances in Moldova's economy appear to be unstable due to two main factors: unfavorable investment climate in Moldova and rigorous fiscal policy. Even though the Government is implementing policies regarding fiscal policy and developing investment opportunities, migrants are still feeling insecure to invest in Moldova because of the corruption and high set-up business costs. IOM (2007) stated that Government put the effort to boost the business climate, which is considered difficult and corrupted, for remittance investments with donor support.

The main issues regarding use of banking services are remittance recipients who do not have a bank account and strict bank requirements for account opening. Also many recipients still prefer to keep the remittances received at home rather than keeping savings at banks. The basis of this trend is lack of financial education among migrants and their families. A good example of financial educational project was implemented in Armenia by Developing Markets Associates (DMA) in 2013. As analyzed by DMA (2013) supported by World Bank, only 17% of people over the age of 15 in Armenia had an account at a financial institution and only 1% kept their savings in a bank. So in 2012, DMA partnered with five local Armenian retail banks, trained 20 financial advisors to work across these banks in terms of remittances by giving personalized financial consultation to remittance recipients on how to manage their finances. The results presented by DMA showed that from around 7,000 people educated 40% have savings and during the first 15 weeks over 4,300 accounts were opened. The feedback showed that people were impressed by innovative approach and good rates offered by the banks. The value of the financial education is to inform people about benefits on the financial products and to establish a strong relationship between customer and the bank.

Other methods for efficient use are re-invested savings and entrepreneurial activities (IOM, 2007). In other words, remittances should be invested in start-ups, small businesses or long-term assets.

In order to attract remittances in economy, Government of the Republic of Moldova, in 2010, implemented a new program "PARE 1+1". The aim of this program is to help migrant workers or their first-degree relatives who want to invest in starting or expanding a business in Moldova (ODIMM, 2013). The rule of the program is "1+1" meaning that every leu invested in the business will be substituted by a leu in the program by the Government. This project is similar to "3 for 1" program implemented by the Mexican Government that encouraged investments in small enterprises. The rule was "3+1" which means that every dollar invested by the migrant was supplemented with 3 dollars by the Mexican Government. PARE "1+1" has a maximum amount of funding of 200,000 lei (around 12,000 Euros) and the money are offered as non-refundable grant. As mentioned on Moldova.org portal (2013) the amount allocated in 2011-2012 was 22,5 mln and it was found that every dollar spent in this program attracts about 3 USD investment in the national economy. The length of the program initially was two years but in 2013 the Government extended it until 2015.

IOM (2009) proposed some policies required to enhance the productive use of remittances. These policies are: engaging Diaspora in homeland development by supporting business investment plans; facilitating migrants investments in SMEs by improving SMEs regulatory framework, offering tax incentives and entrepreneurship training; improving remittance data collection practices; and matching remittances with other funding sources and orienting them on community development.

Other considerations for efficient use of remittances advised by United Nations Economic Commission for Latin America in 1998 provided in Ghencea and Gudumac (2004) research are remittance formal transfer cost decreasing as this will impact on migrant's decision to use formal transfer channels and creation of collective remittance management associations as they can provide additional information and guidance for migrants in investment opportunities.

“In most cases, what is needed are not special programs to harness remittances and savings from migrants abroad, but rather sound macroeconomic policies that encourage the productive use of migrant remittances and savings at home” (Massey and Taylor 2004).

For a better understanding of the behavior of migrants and their families in the view of the remittances it was conducted a survey; 100 fully completed questionnaires were collected from respondents who have at least one member of the family currently working abroad and who are remittances receivers. All respondents had to fill out the questionnaire consisting of 18 questions regarding labor migration, current ways of remittances distribution by the migrants and migrants’ family, transfer channel used by the migrant to send the remittances and efficient use of remittances.

Below were presented the results of answers to some of the 18 questions.

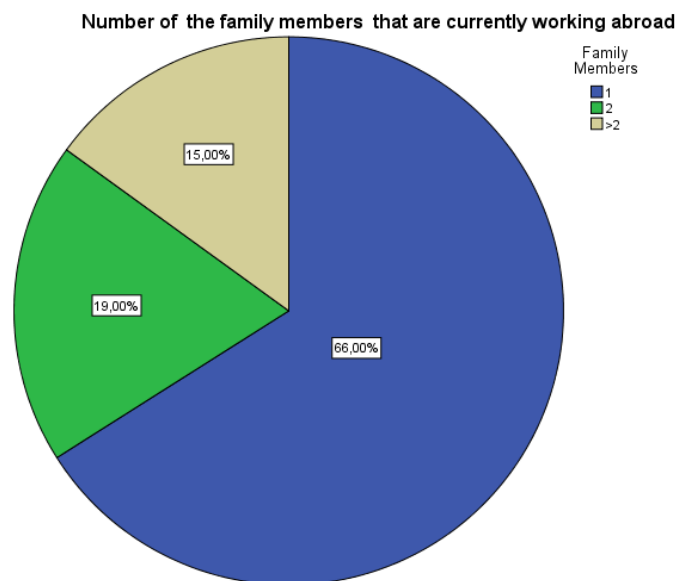


Figure 2: Number of the family members that are currently working abroad

Most of the respondents – 66% have one family member currently working abroad and the rest 34% of those who participated in the survey have 2 or more family members outside the country.

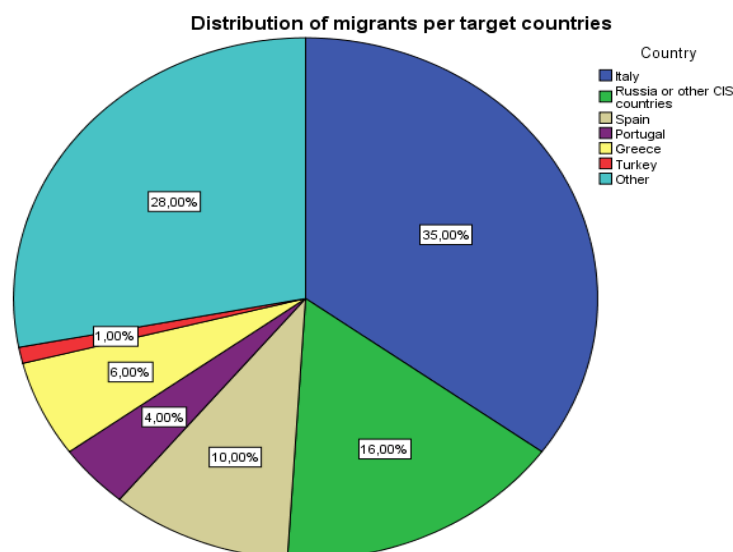


Figure 3: Distribution of migrants per target countries

According to the responses given by the respondents most of the migrants are working in Italy -35%. This is based on the language similarities and closeness of the destination country. Determined by the same reasons, 16% of the migrants prefer going to Russia or ex CIS countries as also they do not need a visa and the work permit is easier to obtain. Countries such as Spain, Portugal, Greece and Turkey are not popular among the migrants due to difficulties in finding a job. Other countries, which represent 28%, are UAE, USA, Canada, France, Ireland, Israel and Germany.

According to the figure above, 74% of the migrants are leaving abroad more than 24 months and only 26% are staying there 24 months or less.

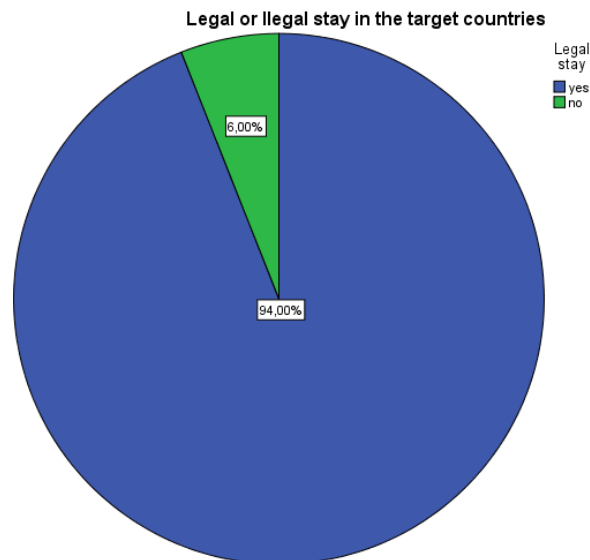


Figure4: Legal or illegal stay in the target countries

Most of the migrants- 94% are working in the destination country legally and there are 6% who are still staying illegally. This is determined by the length of stay and local laws in the destination countries which did not allow the migrants to obtain a work permit.

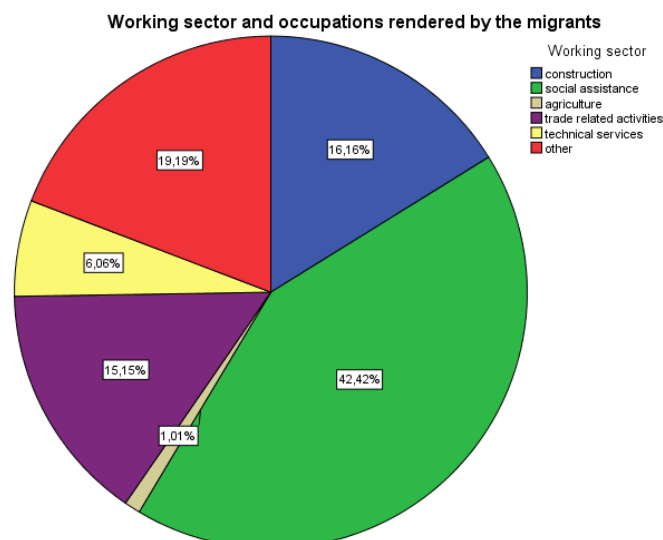


Figure5: Working sector and occupations rendered by the migrants

Social assistance, construction and trade related services are representing 73.73%. This trend could be related to the target countries preferred by the migrants as mostly women are working in Italy in social assistance area and men are working in construction, considering

Russia as a priority country to work in. “Other” which represents 19.19% includes medicine, tourism and hospitality business, engineering, architecture and design, education etc.

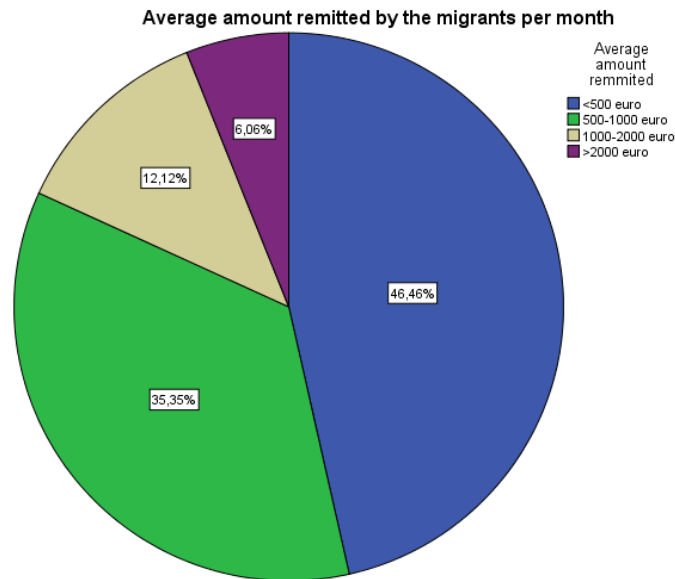


Figure6: Average amount remitted by the migrant, per month

Less than half of the respondents are receiving less than 500 Euros per month and 81,81% out of 100% are receiving less than 1000 Euros per month. Migrants who are remitting more than 1000 Euros monthly are representing 18,18%.

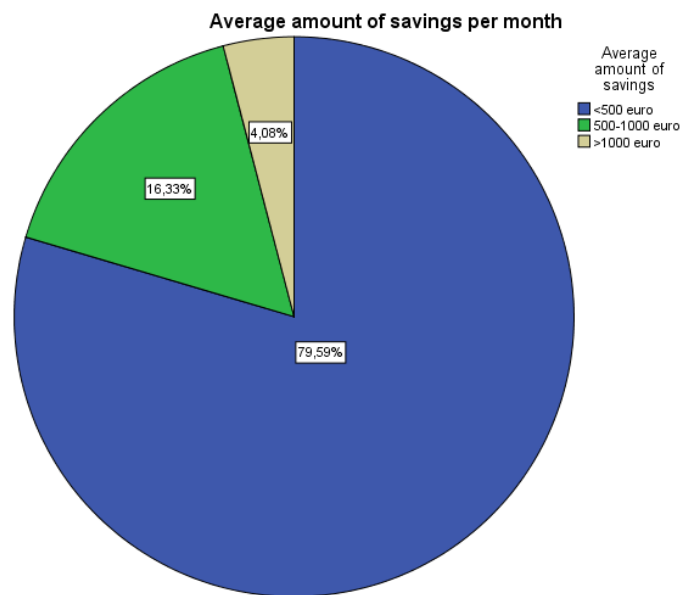


Figure7: Average amount of savings, per month

The average amount of savings per month made by the migrants and migrants' families from the sum remitted is consisting less than 500 Euros for 79,59% and more than 500 Euros for 20,39% of the respondents. First category is represented mostly by those families who have one family member working abroad. Families who receive more than 1000 Euros per month have more than 2 members currently working abroad.

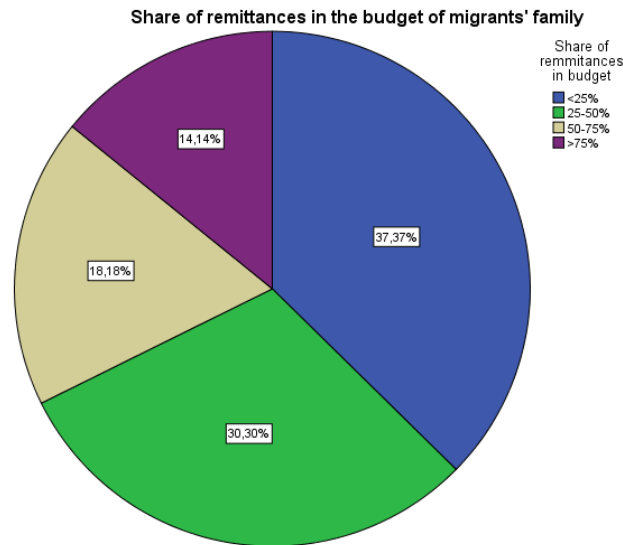


Figure8: Share of remittances in the budget of migrants' family

According to the results collected for 37,37% of the respondents share of remittances in their budget is less than 25% and for 30,30% is between 25 and 50% which means that remittances received are not the main source of income. However, for 18,18% of the respondents remittances are representing between 50 and 75% of their budget and for 14,14% remittances are the main and most important source of existence.

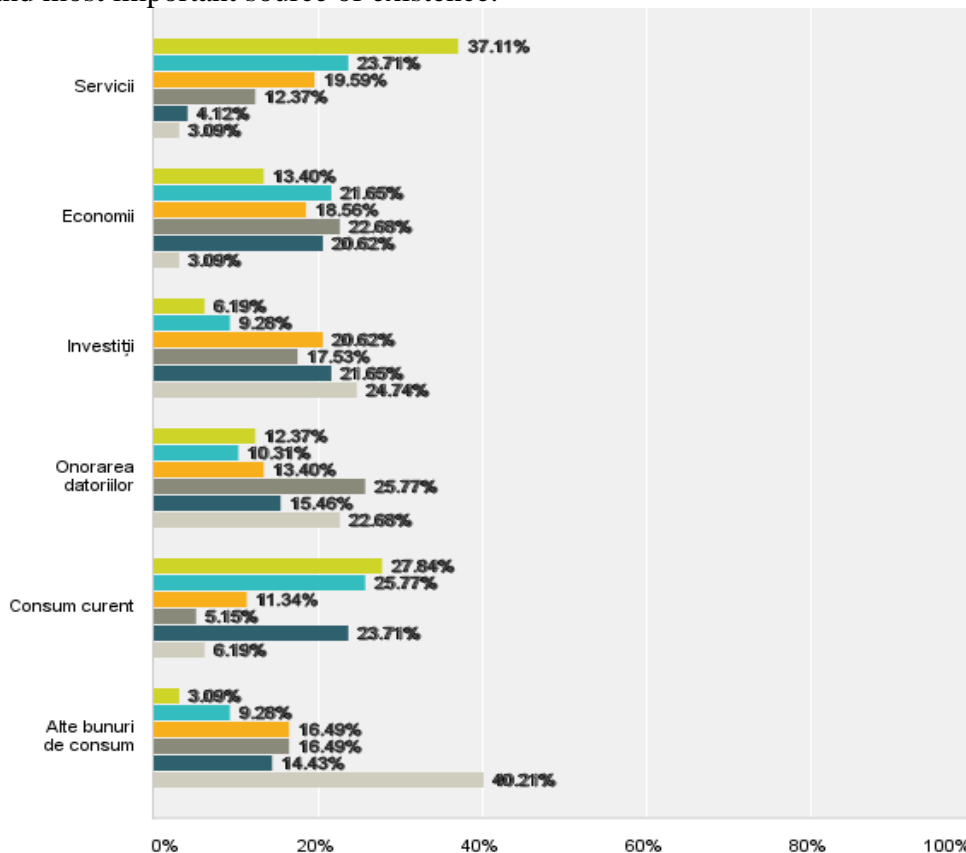


Figure 9: Rating of the factors in order of importance in using remittances

Rating question was meant to highlight the current ways of remittances distribution by the migrants and migrants' families. Respondents had to rate 6 factors: "Current consumption",

“Services”, “Savings”, “Investments”, “Debt repayment”, “Other consumer goods” in order of importance to them in remittances distribution. The rating was from 1 to 6, 1 representing “Most important”, 2- “Important”, 3- “Neutral”, 4- “Less important”, 5- “Much less important” and 6- “Not important”. The final result showed that for 37,11% of the respondents “Services” is on the top of the list and the most important factor followed by “Current consumption” with 27,84%. “Savings” and “Debt repayment” were rated 3rd and 4th respectively. For many respondents “Investments” are “much less important” than other factors and “Other consumer goods” are considered to be “not important” by 40,21% of those who participated in the survey.

CONCLUSIONS

To generalize the results it can be seen that most of the households have one member abroad. As it was analyzed before the most preferred destinations among the migrants are Russia and Italy. Even though the question about legal stay was considered sensitive by some respondents, 6% said that the migrant is staying illegally abroad. Working sector as it can be deduced from the responses regarding target countries are social assistance for migrants who are working in Italy and construction for those who are currently working in Russia. An interesting finding was that more than half of the migrants are not planning to come back home due to several reasons: lack of employment opportunities in Moldova, unstable political and social environment. Despite the fact that most respondents are receiving less than 500 Euros per month, remittances share in their budget in less than 25% meaning that they do not rely only on remittances received. One of the key findings was the answers to rating question about the ways there are using remittances and the result showed that migrant household are using remittances in the following sequence: services, current consumption, savings, debt repayment, investments and other consumer goods.

Remittances for Moldovan households are a way to survive rather than a possibility to invest. Investing in human capital, making savings, investing in businesses build up a foundation for productive investment in case business climate improves.

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CONSUMER BEHAVIOUR IN THE WAKE OF NEW TRENDS AND NEW TECHNOLOGIES

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Abstract: *In the last decades the technologies have evolved greatly. Probably the most important aspect is related to the manner in which the consumer / individual communicates and gather information. Therefore the consumer behaviour has changed greatly in the last years. Our paper underlines the concept of consumer behaviour, the main influences that act on the consumer, how can we present the consumers of the 21st century as well as several trends in the consumer behaviour in the years to come.*

Keywords: new technologies, consumer behavior, marketing, influences

JEL (Journal of Economic Literature) Classification: M31, M39

1. INTRODUCTION

The consumers are proving to be harder and harder to satisfy. Over the last years, they have had access to more and more communication and information technologies that will aid them in the decision making process. New information and communication technologies are constantly emerging, altering business methods, and particularly, the relationship an organization establishes with its customers. Therefore, it is essential to analyze the impact of these technologies on customer behavior (Ricard et.all, 2001). Today more and more means of communication have emerged and we as consumers and in the same time as organizations must understand their impact and their influence on the manner in which the consumer behavior changes its methods of consumption. But the question that rises is: Does the influence of these new technologies extend to just information or communication, or it goes beyond that?

2. WHAT ARE THE MAIN INFLUENCES ON CONSUMER BEHAVIOUR?

Before we can tackle this challenge, we must link it to the concept of marketing and that of consumer behaviour. Modern marketing starts from the premises that any economical activity has to be guided towards satisfying the clients' or customer's needs with maximum of efficiency. Any type of organization which has within its functions, marketing has to firstly know the market, to be able to adapt its activities with the objective of satisfying the present and potential needs of the customer (Catoiu and Teodorescu, 2004).

According to the American Marketing Association, marketing represents the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. Well known marketing scholar Philip Kotler (2012), set of engagements necessary for successful marketing management includes, capturing marketing insights, connecting with customers, building strong brands, shaping the market offerings, delivering and communicating value, creating long-term growth, and developing marketing strategies and plans. So as we can see the consumer is at the heart of the concept of marketing.

The concept of consumer behavior has evolved greatly over the years. The consumer behavior is an important component of the individuals' economic behavior and it represents a type of human behavior (Catoiu and Teodorescu, 2003). The real study of consumer behavior has started in the late 1950 and the beginning of the 1960. But before underlining the concept of consumer behavior we have to understand the concept of consumer. According to the American

Marketing Association, the consumer represents *the ultimate user or consumer of goods, ideas, and services. However, the term also is used to imply the buyer or decision maker as well as the ultimate consumer.* (AMA, October 2013).

In the same time, the concept of consumer is defined by the Marketing Dictionary (Florescu et. al, 2003) as *any economic subject of whose behavior is directed towards the satisfaction of its individual needs or those of its group.* As we can see the consumer is clearly defined and we can clearly see that the consumer's behavior is linked to the satisfaction of certain needs. In 1976, Jacoby defined the consumer behavior as *the majority of the consumers' decisions with regard to the acquisition, consumption and*

Consumer behavior can be look upon by marketers and managers from two points of view; on one hand it reflects the conduct of humans during the buying or consumption of goods and services; and on the other hand it represents the entire conduct of the final goods and services user. Consumer behavior deal with the way the individuals, groups of individuals and the organizations act when they buy, they use or the give up a good or a service, an idea or an experience in order to fulfill their needs and desires.

The increase of the organizations and of the markets has led the marketing managers to lose the direct contact with the client. Consequently, they were needed to base their decisions on the researches made on the consumers in order to respond to the following key questions - the model of the 7 O's - , (Kotler, 2000):

- From whom is the market formed of? Occupants
- What does the market buy? Objects
- Why does the market buy? Objectives
- Who takes part at the acquisition act? Organizations
- How does the market buy? Operations
- When does the market buy? Occasions
- Where do they buy from? Selling Offices (selling points).

The main influences on consumer behavior are influenced by two important categories of factors (Cătoi and Teodorescu, 2004): (1) *Directly perceivable factors* – demographical factors, economical factors, marketing mix factors and situational factors; (2) *Deducted influences* – endogenous influences (perception, motivation, personality, learning, and attitudes), exogenous influences (family, membership and reference groups, social class, culture and subculture). But the question that rises is: are these the same factors that are influenced by the new technologies? Or are there other ones that rise to the challenge of these technologies.

3. WHO ARE THE CONSUMERS OF THE 21ST CENTURY?

The consumers are to be analyzed from all these point of view, but in the last several years, the methods of reaching the consumers have changed over the years. The information and communication technologies have offered the consumers and the marketers in the same time, the opportunity to reach each other faster, better, more directly and from all over the world.

According to Narwal and Sachdeva (2013), information technology is quickly altering the way people do business all over the world. In the business-to consumer segment, sales through the web have been increasing radically over the last few years. Customers, not only from developed countries but also from developing countries are adopting new shopping channel. IT has significant roles to play not only in businesses but also in daily activities of individuals. Internet based services keeps on growing in "business-to-consumer" and "business-to-business" environment. Every year the number of organizations that use internet for marketing purposes increases.

Presently, the new consumer is characterized mainly by cynical attitude manifested for traditional advertising (which tell him to buy something, but not to explain why) and Internet addiction, the media that enjoyed a growing confidence on the part of consumers and from which it gets information that IT directs the buying decision (Onete et al., 2010). The emotional

responses to a website, the enjoyment of the shopping experience and the usefulness of the web site are the factors which may influence the intentions of customers to visit the website again Koufaris (2002). According to the study conducted by Euro RSCG Worldwide (2009), consumers have increasingly higher self-confidence in online content generated by their peers and therefore use the most of online tools to join with others and to document in order to make the best purchase.

How did the consumers evolved over the years? According to the Business 2 Community web site (Delgado, 2013) the consumers have evolved greatly in the last decades and of course in the last century since the development of modern marketing. In the beginning of the 19th Century the most activities in the field of retail were done in small, family owned establishments or in marketplaces. Products and their developers did not traveled very far from supplier to consumer, and most business was local based.

As the industrial revolution has brought new technologies to the production organizations, so the transportation technologies have become more effective and of course less and less costly, sellers were able to start transporting more products and supplies from farther away. This has offered the opportunity for larger shops to open. In the middle of the 19th Century, Alexander Stewart built the “Marble Palace,” the largest retail store in the world at that time. Later it will be known as the first department store, and its design would influence later department stores such as Macy’s and Gimbel’s. The cash register was invented in 1879, and soon included a small paper roll that would record details of transactions, resulting in the first “sales receipts.” Within less than a decade, this new technology had become a prerequisite for doing business. Department stores continued to grow and flourish for well over a century.

The technology continues to develop and progress, the process of shopping became easier and easier. Cars have become a common place, allowing customers to take enjoyable “shopping trips.” The first supermarket has opened in 1915 in Massachusetts, USA and the first shopping mall followed suit eight years later in Missouri. The shopping cart was invented in 1936, further facilitating the shopping experience. After the Second World War, the population explosion known as the “baby-boom” increased consumer demand several times.

As a result, new highways and larger shopping centers began to appear. Suburban malls started to spring up as well, and in 1958, Bank of America launched the first credit card program (it would eventually merge with other programs and networks to become Visa in 1976). In 1962, the first discount stores—Kmart, Walmart, Target, and Woolco—opened their doors. The 1960s also saw the invention of the debit card.

In the eight decade of the 20th century, department stores began to be less and less frequented due to the emergence of large, inexpensive bulk-items stores. Store chains like Bigbox began to open, making it easier for shoppers to make all of their purchases at one location. Costco Wholesale opened in 1983 and was an immediate success, and have continued to set the standard for warehouse clubs and high-end retail. In 1990, Walmart became the world’s largest retailer, further hastening the decline of department stores. In 1995, Amazon.com went active, taking advantage of the relatively new invention—the internet—to sell and ship books. It took six years before the company began to make a profit.

The new technology boom has been caused by the Internet which became more and more ubiquitous and easy to use, a large number of companies took their cues from websites likes Amazon.com and was expanded into large scale online retail. Online orders and automated shipping have allowed consumers to start shopping from the comfort of their own homes, without the need of catalogs, telephones, or postage stamps. In the year 2003, big box stores sales have surpassed department store sales for the first time. In 2007, Facebook.com debuted, allowing companies to promote themselves on social networks. Social media has revolutionized the way businesses operate and communicate with consumers. This has had a huge impact on retail business. In 2008, Apple and iTunes became the largest music retailers in the world. Amazon.com went on to become the world’s largest online retailer. It has become so enormous

that it takes big data analytics just to compute the information in the millions of transactions occurring daily. With that amount of people turning to the internet for shopping, many department stores and other “off-line” stores around the country began to close their doors. Malls all around the U.S. have started losing their flagship stores, which has threatened the closure of the entire shopping center.

4. WHAT ARE THE CONSUMER TRENDS IN THE 21ST CENTURY

Specialists (Lacy and Keeble, 2013) appreciate that by the year 2050, if current population and consumption trends continue; increased demand in resources will require the equivalent of 2.5 planets to support the population with what it will need. In order to create more sustainable consumer consumption, the businesses and their managers must reshape and redesign their demands by creating a more relevant and personal message destined to consumers. It is necessary to leverage the power of the new technologies to increase the engagement and transparency of the current organizations.

There are several important trends and technological developments that demonstrate that technology represents a mandatory component in the consumer behavior and decision making process (Lacy and Keeble, 2013):

- a) **Living in a smarter way** – we, as managers and in the same time as consumers, are seeing the emergence of intelligent solutions to help us live easier, more convenient and efficient lives – particularly in our homes and how we travel.
- b) **Increase peer pressure through social networks** – companies that are using social networks to promote and to encourage peer pressure, peer competition and brand communities for more sustainable behavior.
- c) **Multi-channel platforms** - companies are beginning to use multi-channel platforms to tell narratives about the provenance of their products and services as a means of differentiating their supply chain and transparency.
- d) **Influencing the crowds** - Technology will increasingly connect consumers with similar values. See the example of social networks in the case of Rosia Montană.

At the CES International Conference 2013 (Freiner, 2013), several important trends have appeared in relation with the technological advances that will shape the consumer behavior of us all. The most important ones are:

- a) **Mobile will become the number 1 interface, for everything** – right now the mobile platform is the biggest platform there is, and represents the largest access point to the Internet. Tomorrow it will probably be the central control unit to communicate to people around us, but also to communicate with other devices in one’s life, whether your fridge, your garden sprinklers, your oven or even your car and even the acclimatization system in the house.
- b) **The TV will be a central thing in your house** – The TV has evolved greatly in the last decades. If at the beginning of the television systems the technologies were based on diodes, right now the TV’s are changing faster and faster; more and more technologies are integrated in one single device. They are “smart”, equipped with cameras (to SKYPE), voice and gesture recognition (for fast and easy access), and loaded with apps.
- c) **Social interaction will be different** - individuals will be less and less social while being more social (we are more connected to each other, but individually consumed by our own little world) – see the usage of social media in young individuals.

The consumer experience continues to change rapidly. It's getting more digital, more mobile, and many more companies from around the world are competing for shorter attention spans. Consumer expectations have evolved greatly in the last decades and more so in the last years or so. Some of the most important trends for consumers in this year and in the next ones that should be taken into consideration are, according to BusinessInsider.com (Nisen, 2012) and Trendwaching.com, are:

- crowd funding will become more and more active, consumers will start to change and invest in new startups and products;
- average consumers will be able to own a small piece of the start-ups they buy from in everyday life;
- existence of an explosion of products and services that rise from emerging markets and are designed for emerging markets;
- brands are going to look to engage constantly on mobile devices;
- products are out that literally grow when you plant them;
- healthcare apps are exploding, so actual healthcare professionals will get involved;
- doctors are starting to 'prescribe' healthcare apps;
- emerging markets will embrace their culture in consumer products sold worldwide;
- consumers will start demanding a share of the value of their data;
- brands will have to start proving that they're transparent and socially responsible;
- brands will start to make demands of their customers.

In support of our literature and desk study we chose to present some important statistics related to the consumer and the usage of new technologies / Smartphone:

- 79% of Smartphone users use their phones to help information search for shopping;
- 74% of Smartphone users make a purchase as a result of their information search;

Some interesting statistics related to behaviour in the online environment (Web, 2012) show that in the next years the number of users / activities will grow exponentially: (1) by 2020 there will be more than 10 billion mobile subscribers; (2) online research is in 2012 with 22% higher than the one in 2010, the mobile online research has increased with 75% in the last 2 years; (3) the number of network connections will be in 2015 at the level of 2,5 times the world's population;

5. CONCLUSIONS

As we can see in the last decades and years the consumer and its buying behavior is changing more and more. If at the beginning of the last century a consumer would have bought what he found on the market or exactly what the producer offered, the last decades have shown us that the companies, their manager and the marketing specialists had to adapt their strategies to the new challenges offered by more and more well informed consumers.

The more and more important usage of the new technologies, the development at an international level of new, green and more reliable technologies, the increase in speed of our communications, our dependence on the internet and on internet based communication platform, the transportation of the mobile phone in a mini computer that we can use for almost everything, the development of intelligent cars, houses and shopping centres, all have changed the manner in which the consumer buys, informs himself and acts in a modern society.

Who can really say what is in store for retail as the years march onward? However, one thing seems certain (Delgado, 2013): whatever happens, the Internet and other new technologies will continue to play a big part in the future of retail. And just as America adapted from the mom-and-pop and marketplace retail models of the past, so too will we adapt to whatever new innovation comes our way.

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CONSIDERATIONS ABOUT SOME CLASSICAL METHODS OF SOLVING MULTICRITERIA PROGRAMMING PROBLEMS

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Abstract: *Multicriteria programming provides to decision- maker optimal decision making methods in applications from various fields. The work summarizes some classical models of multicriteria optimization, introducing some basics previously about these models. There are considered the possible use of the models presented, highlighting the valences and limitations of each.*

Keywords: *Programming Models*

JEL (Journal of Economic Literature) Classification: C61

1. INTRODUCTION

Multicriteria (*multiobjective*) programming is represented by the types of models optimization under constraints, which resolve the problem of choosing that program which is „optimal” for more objective functions (criteria).

Let the multicriteria programming problem be:

$$\begin{array}{l} \text{v-sup } \mathbf{f}(\mathbf{x}) \\ \text{subject to:} \\ \left\{ \begin{array}{l} \mathbf{A} \mathbf{x} \leq \mathbf{b} \\ \mathbf{x} \geq 0 \end{array} \right. \end{array} \quad (1.1)$$

where $\mathbf{f} = (f_1, f_2, \dots, f_r)^T$, is a vectorial objective function, $f_k: S \rightarrow \mathbb{R}$, $k=1,2, \dots, r$, $S = \{\mathbf{x} \in \mathbb{R}^n \mid \mathbf{A} \mathbf{x} \leq \mathbf{b}, \mathbf{x} \geq 0\}$, $\mathbf{x} = (x_1, x_2, \dots, x_n)^T$ is the unknown vector, $\mathbf{A} = (a_{i,j})$, $i = 1,2, \dots, m$, $j = 1,2, \dots, n$ is a matrix $m \times n$, $\mathbf{b} = (b_1, b_2, \dots, b_m)^T$ is the vector of free terms. The numerical measure associated with an objective is called *atributte* expressed by $f_k(\mathbf{x})$, $k=1,2, \dots, r$. The set of attribute value or the consequences set is denoted by $Z = \{\mathbf{z} \in \mathbb{R}^r \mid \mathbf{z} = (\mathbf{c}_1^T \mathbf{x}, \mathbf{c}_2^T \mathbf{x}, \dots, \mathbf{c}_r^T \mathbf{x}), \mathbf{x} \in S\}$, \mathbb{R}^r being called *the consequences space*.

S represents the set of programs where the decision-maker has to choose a version \mathbf{x} .

For the multicriteria programming problem the optimal program name expressed by \mathbf{x}^* used in the programming with one single objective function is inappropriate, in case of multicriteria programming \mathbf{x}^* it is considered the best program making „the best compromise” between the criteria which are usually in conflict. For this reason we introduce some of the important concept hereafter.

Definition. We say that \mathbf{x}^* is an *efficient point (or Pareto point) of maximum* for \mathbf{f} function relative to S , if there does not exist an $\mathbf{x} \in S$ such that $f_k(\mathbf{x}) \geq f_k(\mathbf{x}^*)$, $k = 1,2, \dots, r$ and at least for one l holds that $f_l(\mathbf{x}^*) > f_l(\mathbf{x})$.

An efficient maximum point is also called *a point of maximum vectorial* for vectorial function \mathbf{f} relative to S .

This notion corresponds to the *strong efficient point of maximum*.

Definition. We say that \mathbf{x}^* is a *weak efficient point of maximum (or Slater point)* if there not exist $\mathbf{x} \in S$ which satisfy the relation $\mathbf{f}(\mathbf{x}) > \mathbf{f}(\mathbf{x}^*)$.

Similarly the notions of efficient point (weak efficient) of minimum are introduced. Another way of defining the efficient points is introducing a relation of order \leq in \mathbb{R}^n .

Definition. By \leq we note a relation of order in \mathbb{R}^n that means a subset of the set $\mathbb{R}^n \times \mathbb{R}^n$ of ordered pairs of elements from \mathbb{R}^n . We consider the relation of order defines as:

$$\mathbf{x}^1 \leq \mathbf{x}^2 \text{ if and only if } \mathbf{x}^2 - \mathbf{x}^1 \in \mathbb{R}_+^n, \text{ where } \mathbb{R}_+^n = \{\mathbf{x} \in \mathbb{R}^n \mid x_i \geq 0 \ \forall i \in \{1, 2, \dots, n\}\}.$$

Having this condition we can define :

Definition. Let $\mathbf{f}(S)$ be the image of the admissible solution set $S \subset \mathbb{R}^n$ through the objective vectorial function \mathbf{f} . One point $\mathbf{y}^* \in \mathbf{f}(S) \subseteq \mathbb{R}^n$ is called *efficient point of maximum* (global) concerning the relationship of order \leq defined by \mathbb{R}^n if and only if there is not existing $\mathbf{y} \in \mathbf{f}(S)$, $\mathbf{y} \neq \mathbf{y}^*$ with $\mathbf{y} \geq \mathbf{y}^0$. The point $\mathbf{x}^* \in S$ with $\mathbf{y}^* = \mathbf{f}(\mathbf{x}^*)$ is called *optimal Pareto (global)* if and only if \mathbf{y}^* is efficient.

Most of the specialists do not make any difference between the efficient point which belongs to the space of objectives and the Pareto optimal point which belongs to the space of variables. We will use these two terms as being synonyms when addressing the context is clear.

Definition. One point $\mathbf{x}^* \in S$ is called *local optimal Pareto* if and only if there exists a neighbourhood $U(\mathbf{x}^*)$ of \mathbf{x}^* so that $\mathbf{y}^* = \mathbf{f}(\mathbf{x}^*)$ is efficient in the set $\mathbf{f}(S \cap U(\mathbf{x}^*))$, \mathbf{y}^* is called *local efficient point*.

Definition. We say that a program $\mathbf{x} \in S$ *dominates* $\mathbf{x}' \in S$ if $\mathbf{f}(\mathbf{x}) \geq \mathbf{f}(\mathbf{x}')$ and there exists $i \in \{1, 2, \dots, n\}$ so that $f_i(\mathbf{x}) > f_i(\mathbf{x}')$.

Definition. We say that a program $\mathbf{x}^* \in S$ is *nondominated* if whatever $\mathbf{x} \in S$ be, so that $\mathbf{f}(\mathbf{x}) \geq \mathbf{f}(\mathbf{x}^*)$ results $\mathbf{f}(\mathbf{x}) = \mathbf{f}(\mathbf{x}^*)$

Definition. Supposing that for each $k = 1, 2, \dots, r$ there is a $x^k \in S$ such that $\bar{f}_k = \max_{\mathbf{x} \in S} f_k(\mathbf{x})$. Then the point $\bar{\mathbf{f}} = (\bar{f}_1, \bar{f}_2, \dots, \bar{f}_r)$ is called *ideal point* of the problem (1.1)

We propose to analyze different approaches for solving the multicriteria programming problem i.e. of establishing the vector \mathbf{x}^* , starting from some let's say classical methods and reaching recent trends in this way.

Pareto optimality (V. Pareto was an Italian economist 1848-1923) is one of the most known approaches for determining the optimum in multicriteria programming as well as in other cases such as the theory of cooperative games (with multiple objectives). In this approach the optimal solution of a multicriteria programming problem is represented by the set of all nondominated solutions; it is considered that an efficient solution for a decision maker is that solution for which there are no better alternatives. If there are more efficient solutions and these can not be compared, they are considered good as well.

We denote by N the set of nondominated programs and by D the set of dominated programs of the set S . There is $S = N \cup D$ și $N \cap D = \emptyset$.

2. CLASSICAL METHODS OF SOLVING MATHEMATICAL MULTICRITERIA PROGRAMMING PROBLEMS

There are several points of view about the optimality approach in multicriteria programming, of which we will briefly present a few that we consider representative.

The multicriteria programming problem is:

$$\text{v-sup } \mathbf{f}(\mathbf{x}) \tag{2.1}$$

subject to:

$$\begin{cases} \mathbf{A} \mathbf{x} = \mathbf{b} \\ \mathbf{x} \geq 0 \end{cases}$$

2.1 Optimizing by selection criteria

These methods involve finding a selector on the set of nondominated solutions, defined by a single objective function, resulting from the composition of the r objective functions. The first method is optimization through weight.

I. Optimization through weights

This method has many variants, it is probably the most used in vectorial programming; all variants use the weights $\alpha_1, \alpha_2, \dots, \alpha_r$ associated with the r objective functions with $\alpha_k > 0$,

$$k=1, 2, \dots, r, \sum_{k=1}^r \alpha_k = 1 \text{ and item a „synthesis function” } f_a(x) = \sum_{k=1}^r \alpha_k f_k(x).$$

The multicriteria programming problem

$$\sup f_a(x) \tag{2.2}$$

subject to:

$$\begin{cases} \mathbf{A} \mathbf{x} = \mathbf{b} \\ \mathbf{x} \geq 0 \end{cases}$$

represents the model of optimization associated with the multicriteria programming (2.1).

A relatively difficult problem in this approach is the establishment of the weights by the decision maker depending on the importance given to each objective, the difficulty increases if the objectives are not comparable. This is the reason why there had been searched different techniques of objective determination of these weights resulting from criteria ordering, one being presented in the work of Lebedev and others (1971).

Having determined the weights, the problem of finding the efficient solution \mathbf{x}^* is limited to solving the unicriterial problem:

$$\sup \sum_{k=1}^r \alpha_k f_k(x) \tag{2.3}$$

subject to:

$$\begin{cases} \mathbf{A} \mathbf{x} = \mathbf{b} \\ \mathbf{x} \geq 0 \end{cases}$$

Finding an optimal solution \mathbf{x}^* involves two aspects, namely: checking if \mathbf{x}^* belongs to the set N and the acceptability of \mathbf{x}^* as the optimal solution by the decision maker. We will refer to the first of these and give the following

Proposition 2.1 *If \mathbf{x}^* is an optimal solution of the problem (2.3) and $\alpha_k > 0$, $k=1, 2, \dots, r$, then $\mathbf{x}^* \in N$.*

Proof. Suppose that $\mathbf{x}^* \notin N$. It results that there is $\mathbf{x}' \in S$ which dominates \mathbf{x}^* , namely $f_k(\mathbf{x}') \geq f_k(\mathbf{x}^*)$, $k = 1, 2, \dots, r$ and there exists an $i \in I$, $I = \{1, 2, \dots, r\}$ so that

$$f_i(\mathbf{x}') > f_i(\mathbf{x}^*).$$

Because $\alpha = (\alpha_1, \alpha_2, \dots, \alpha_r) > 0$ it results that $\mathbf{f}^*(\mathbf{x}') > \mathbf{f}^*(\mathbf{x}^*)$ which contradicts the fact that \mathbf{x}^* is the optimal solution to problem (2.3). Therefore $\mathbf{x}^* \in N$. \square

We will briefly mention other two methods for multicriteria programming solving which use the weights method.

The first is the technique of *homotopy* proposed by Rakowska and others (1991) where the weights method is interpreted as a parametric programming problem. This method is limited to the bicriterial case, the homotopic parameter being unidimensional; a homotopic curve is determined numerically by the mediation technique of a predictor-corrector.

The second method is by Das and Dennis (1996) which scale a vectorial problem in a geometrical way, but which is applicable to the complete bicriterial case.

The main limitation of the method of weighting is that if the criteria are not comparable, the method can not be applied. An option that allows the removal of this limit is defining the optimal solution through a single selection criterion, which we present below.

II. Optimization by minimizing the distance to the ideal point (the best compromise solution)

Determination of the optimal solution of multicriteria programming through this method has a wider applicability than the weight optimization method, this approach aiming to determine a nondominated solution which should minimize the "distance" function from possible solutions to the ideal point.

We consider $d_{\bar{f}}: S \rightarrow \mathbb{R}$ defined as follows

$$d_{\bar{f}}(\mathbf{x}) = \max_{1 \leq k \leq r} \frac{\bar{f}_k - f_k(\mathbf{x})}{\bar{f}_k}$$

Supposing that the functions f_1, f_2, \dots, f_r are concave, we can proof that $d_{\bar{f}}$ has the following properties:

1. $d_{\bar{f}}$ is convex on S
2. $d_{\bar{f}}(\mathbf{x}) \geq 0, \forall \mathbf{x} \in S$
3. $d_{\bar{f}}(\mathbf{x}) = 0 \Leftrightarrow \mathbf{f}(\mathbf{x}) = \bar{\mathbf{f}}$
4. if $\mathbf{x}, \mathbf{x}' \in S$ și $\mathbf{f}(\mathbf{x}) \geq \mathbf{f}(\mathbf{x}')$, then $d_{\bar{f}}(\mathbf{x}) \leq d_{\bar{f}}(\mathbf{x}')$.

and as a consequence we have

$$\inf_{\mathbf{x} \in S} d_{\bar{f}}(\mathbf{x})$$

as a problem of convex programming with an objective linear function. Given these results, a method was founded, called „the best compromise solution” that minimizes the distance to the ideal point. This method was determined by J. Saska (1968).

2.2 The method of global utility maximization

For the same situation where the established criteria are not comparable, there are various methods which use what we call a *utility function* (of value) in the sense von Neumann and Morgenstern, one of them being the global utility maximization method.

This method was developed by Boldur Gh. and Stancu-Minasian I.M. (1971) and the basic idea is replacing objective functions with specific economic significance, with utility functions in von Neumann and Morgenstern sense, which then will be summed to obtain a function called synthesis.

The method has four steps which turn the objective functions f_1, f_2, \dots, f_r into utility functions f'_1, f'_2, \dots, f'_r ; solving a linear programming problem to obtain the final solution of maximum utility $x^* = x_1^*, x_2^*, \dots, x_n^*$, respectively $\max f^*$ which is the synthesis function obtained by summing the utility functions.

2.3 Finding the efficient solution by directed optimization methods

The directed optimization methods allow the intervention of the decision-maker at certain times of the algorithm for determining the effective solution, in order to accept or not the conclusions of a particular stage, with the probability of changing the selection criterion.

Some of the most elaborated techniques developed for multi-criteria programming are the *POP* method, (Benayoun and others, 1969) and *STEM* method (Benayoun and others, 1970), which are similar to the previous method of Saska J. (1968), but have a greater applicative potential. The *STEM 2* algorithm was developed later, this is faster convergent when there is no information available on the objective functions.

The STEM method starts by developing a payoff table with which the decision-maker evaluates each objective setting a minimum acceptable level for each objective. The process is interactive and the decision-maker is the one who determines when it stops, if the objectives are satisfactory. Steuer (1986) points out that STEM is an *ad hoc* procedure and even if the decision maker establishes the utility function, it is not clear how it proceeds. This method proposed by Steuer provides an effective way of focusing on improved solutions, but it also has limitations because it is almost always assumed that the utility is linear.

Another technique that combines Steuer's searching method with the one of use of bounds upon selected objectives.

A last method we mention is called *Analytic Hierarchy Process-AHP* by Saaty (1977) based on restrictions which impose improvement of the selected objectives.

The steps for implementing this method are:

- 1) obtaining a comparison matrix of objective importance (an ad hoc procedure);
- 2) obtaining the eigenvector to transform this ranking into objective function weights;
- 3) constraining objective function attainment levels to generate new solutions for DM consideration.

The purpose of this study was to evaluate several classical techniques of multicriteria optimization to obtain the optimal solution.

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A CHALLENGING OPTION FOR ROMANIAN COMPANIES IN 2013: ANTICIPATED CORPORATE INCOME TAX

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Abstract: *Introduced from 2013, anticipated income tax is a burning question and hard choice for Romanian companies. The point is obvious: how to choose between a current (quarterly) corporate income tax, based on quarterly revenues and expenditures and an anticipated (or prior, as annual) corporate income tax. This tax should be determined on the basis of prior year corporate income tax, computed and paid, updated with inflation index. And the question should be answered by the end of 2012 or no later than 25 January 2013. Moreover, these changes take place while economic environment is busy covering the financial implications of VAT new regulations, starting 2013. This paper tries to define some aspects regarding this choice and some irregularities and discrepancies of the legislation.*

Keywords: corporate income tax, prior year system, annual system, anticipated payments

JEL (Journal of Economic Literature) Classification: D24

1. INTRODUCTION

Introduced in 2013, for all Romanian companies (as a choice) *the anticipated corporate income tax* is about an alternative system of payment. The tax will be paid during the fiscal year in equal sizes. It will be determined on the basis of the previous year income tax, updated with inflation index (published by National Institute of Statistics). Until 2013, corporate income tax was determined on the basis of the difference between revenues and expenditures, corrected with fiscal confinements.

From the beginning it is clear that this is not a different tax rate, but a new approach regarding payments of the corporate income tax installments during the fiscal year. Final tax will be calculated after the end of the year and will be the same as in previous system, regardless of method of payment used. The legislation calls it *annual corporate income tax* (and is it clearly specified that is referred as reporting and payment system) while the current system is called *quarterly corporate income tax*. In our paper we will use the same terms.

The annual system already operates for taxpayers in banking sector since 2007 and its expansion to all corporate companies was tried several times since. All the attempts failed for two reasons:

1. the originally proposed version of the law text involved the replacement of current payment system (based on effective calculus of the corporate income tax during the year at the end of the four quarters on the basis of real and actual revenues and expenses, from the beginning of the fiscal year to the end of the calculation period) with the prior year (anticipated) corporate income tax payments determined on the basis of the previous year's fiscal profits, with no possibility of choosing.
2. Consequently, depending on the cash flow generated by the economic activity, would have been favour of taxpayers in growth years and the budget in years of economic decline. As such, the second reason evolve from the first because depending on the cash flow, the new system will induced a profit for the taxpayers during economic growth years or for the government during the decline years.

Under those conditions, it is easy to understand that the delays of introduction of the system between 2007 and 2009 were sought by the government, while the delays after 2009 were pushed by taxpayers, for whom such a forced extent would have been definitively expensive.

Finally, the winning idea was to let taxpayers choose the new system or not and was already introduced in 2011 in Romanian Tax Code, as to become effective from 2013. Therefore, the annual system does not replace the old quarterly system; it will represent just an alternative. The eligible taxpayers will be able to choose the most favourable system, according to their forecasts in growing / decreasing business and their working accounting methods.

2. PRESENTING THE SYSTEM

The Romanian Fiscal Code (Law 571/2003) defines corporate income tax as “*the difference between the revenues realized disregarding the source in a fiscal year, and the expenditures performed to insure the revenues, from which are deducted non taxable revenues and added non deductible expenditures*”. Until 2013, for most of the companies (with the exception of financial and banking companies) the corporate income tax was computed and paid quarterly using the revenues and expenditures from the beginning of the fiscal year. If there was profit, payments were made quarterly. In our opinion, this was (and still is) a real taxation system.

The new system of payment (while there are no changes in calculating the tax and no correction of the percentage applied, still 16%) changes the *value* of the payments. There will be equal payment in size, at the same terms of payment. But the calculus of the sum will be different: it will be determined on the basis of the previous year income tax, updated with inflation index (published by National Institute of Statistics). The result, divided by four, will be paid for the duration of the current fiscal year. The eventual corrections of computing and payment (and corrections will certainly occur) will be made until 25 March (due date) next year, with a declaration called 101, and consequently the payment of the positive difference.

So, this system will be regarded as estimation for the new fiscal year based on positive results of the last year. It will not reflect the economic reality and evolution of the business, but could inflict on company's cash flow.

2.1. The new taxation system is optional

The option for the annual corporate income tax reporting and payment system must be exerted until 31 January of the fiscal year, if the application of the system is sought. The option, once exerted is compulsory for the next two fiscal years. Basically, in order to apply the system in 2013 the taxpayer must notify the fiscal authority no later than 31 January 2013.

It is perfectly clear that the decision should be grounded on a thorough opportunity analysis based on accounting and financial forecasts not just for one year, but for two years (being the minimum compulsory period for the application of the system, once option has been exerted). As declaration 101 (which states recording profit or loss for the fiscal year and subsequently the income tax to be paid) is to be submitted until 25 March next year, we consider that the choice for 31 January as deadline is inadequate. Unfortunately, it could appear situations that can't be considered until 31 January, such as a recorded loss in 25 March (in which case the taxpayer could not choose the system) but not known at 31 January.

2.2. Eligible companies

Legal restrictions do not allow the access to the annual system for several categories of taxpayers. It is based on technical or related to special situation of the taxpayer, as follows:

- **Newly started enterprises.** With no fiscal history no anticipated payments could be determined for the first year of application.
- **Taxpayers with recorded losses** at the end of the previous year and where no anticipated payments can be determined for the first year of application.
- **Taxpayers in temporary inactivity or with no activity** in the previous year at the registered office or secondary establishments, as recorded in the Trade Register.
- **Microenterprises** subjects of turnover tax in previous year and with no relevant tax

history to determine anticipated payments in the first year of application.

As a general rule, the annual system cannot be chosen by taxpayers recording tax loss at the end of the previous year or by cumulating the tax profit of the current year with the tax loss generated in previous years, as determined in declaration 101 for the current year. Those taxpayers recording losses in any year, except for the first year of the option will be required to leave the annual system.

3. ADVANTAGES AND DISADVANTAGES OF THE ANNUAL SYSTEM

For an adequate opportunity analysis, companies must take into account the advantages and drawbacks of the annual system. Some of the advantages are:

- **Predictability** for the value of payments during the year. The payments will not diminish the cash flow, while they are known in advance. The payment value is not influenced by the variation of the taxable profit from one period to another. The influence of factors such as seasonality disappears too.
- **Profit / loss allocation during quarters** When estimated fiscal results in last quarters (3 or 4, or even 2, 3, 4) are losses, while in the first quarters are profit (e.g. for seasonal activities) the system is highly recommended. Using an example for a company with taxed profit of 10.000 units and for which we presume a tax of 400 units / quarter.

Table 1: Profit taxation

	Profit / Loss	Profit tax (quarterly system)	Profit tax (annual system)
Q1	9000	1440	400
Q2	4500	720	400
Q3	(1500)	0	400
Q4	(2000)	0	400
Total	10000	2160	1600

Source: *Own study*

As we see above, tax paid in the case of annual system is smaller with 560 units. In quarterly system, that amount paid could be asked as reimbursement or could be compensate with another fiscal sum to be paid – but for sure the amount will be recovered in more than one month.

- **Easier compliance** as no corporate tax calculation is required. The accounting procedure can be relaxed because the revenues and expenditures could be recognized at the latest on a quarterly basis in order to be taken into account when computing the tax level.
- **Interest and penalties calculation** can be none for the benefit of the taxpayer, unlike the quarterly system.

Romanian fiscal system is complex and in change. Thus, annual system could bring a solution until clarifying fiscal treatment of some transactions with an increased level of incertitude during the year. Last advantage can be explained by an example: in the new system, an expense related to January 2013 can be reclassified from deductible to non deductible, leading to a higher income tax and generate accessory tax liabilities (as interest and penalties) only after 25 March 2014 – deadline of submitting declaration 101 for year 2013 -. In the quarterly system this generates liabilities beginning 25 April 2013 - deadline for the payment of Q1/ 2013 income tax – until the payment of the balance.

- **Profit tax rectification.** One change in last year profit tax, which is the base for annual system bring a new base for computing the tax. And so if by rectification the base is increased thus generate delay penalties for two years: for the previous year (which was

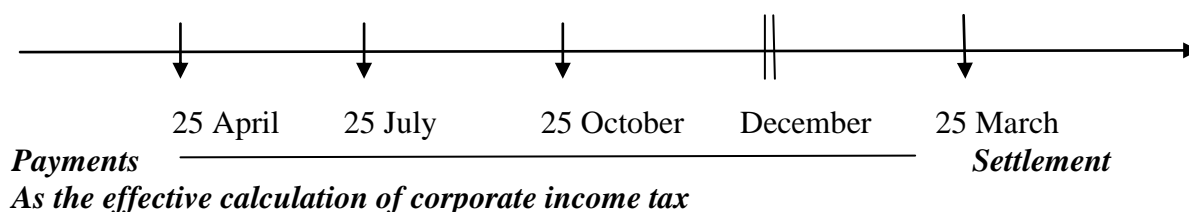
reviewed) and for the present year (for which the profit tax is paid). Still, this aspect is not clearly specified in legislation. For instance, if because of a fiscal inspection take place a transposition of an economic operation, which change the profit tax for the previous N year there will be no penalties for year N on which was chosen annual taxation. On the other hand when the base for profit taxation in year N+1 increases (as a result of fiscal control) the penalties for underpayment could be generated.

But as always there are some *disadvantages*:

- **Additional payment deadline** in Q4 for anticipated payment. For the quarterly system there are only three dates for payment, for Q1, Q2, Q3 and 25 March next fiscal year.
- **Mandatory requirement** in maintaining the annual system for at least two years after exerting the option. It is apparent that in this case a very strict budgeting would be required, covering two, instead of just one year.
- **Weakened vigilance** in accounting department while no precise calculations are required and some expenditure could be recognized in their formal and true aspect only very close to their final reporting deadline.

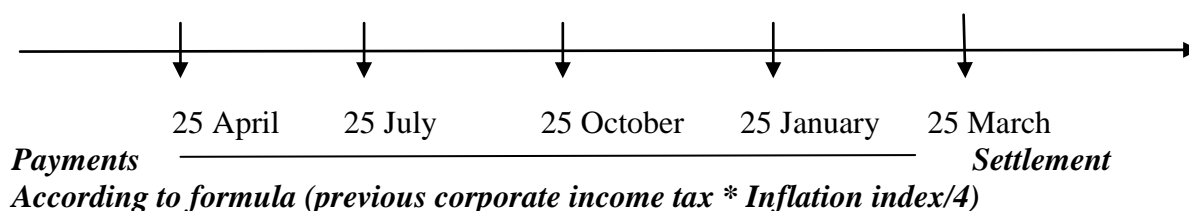
Date of payments for quarterly and annual system

Quarterly system



As the effective calculation of corporate income tax

Annual system



*According to formula (previous corporate income tax * Inflation index/4)*

4. SPECIFIC CASE STUDIES

The law builds some special provisions for specific cases, such as:

- **Tax loss in the first year of the option.** In case of tax loss in the first year of the option, in the second year the anticipated payment will be computed by applying the tax rate (16%) to the accounting profit of the quarter for which the anticipated payment is made. Obviously, if the company has an accounting loss, no anticipated tax payment will be made for the quarter. The case where the taxpayer has a tax loss and loses access to the annual system should be mentioned too. The table below summarizes cases that can occur in practice and their consequences, as follows:

Table 2: Specific cases rules

Case	Anticipated payments	Year 0	Year 1	Year 2	Year 3
1.	Tax profit for the year	Loss	-	.	.

	Anticipated payments during the fiscal year	Cannot be chosen	Not applicable	•	•
2.	Tax profit for the year	Profit (pf0)	Loss (pf1)	Loss (pf2)	-
	Anticipated payments during the fiscal year	Can be chosen	$IP_0 \times II_0 \times \frac{1}{4}$	$16\% \times QP$	Not applicably any longer
3.	Tax profit for the year	Profit (pf0)	Profit (pf1)	Loss (pf2)	-
	Anticipated payments during the fiscal year	Can be chosen	$IP_0 \times II_0 \times \frac{1}{4}$	$IP_1 \times II_1 \times \frac{1}{4}$	Not applicably any longer
4.	Tax profit for the year	Profit (pf0)	Profit (pf1)	Profit (pf2)	-
	Anticipated payments during the fiscal year	Can be chosen	$IP_0 \times II_0 \times \frac{1}{4}$	$IP_1 \times II_1 \times \frac{1}{4}$	$IP_2 \times II_2 \times \frac{1}{4}$
Year 1 and 2 are the minimum period of application. IP_x – tax in year x; pf_x – tax profit in year x; II_x – inflation index in year x.					

Source: Own analysis and compilation of the text law

Table 3: Case studies

Case	Indicators	Q1	Q2	Q3	Q4	Balance	Tax base	Financing
Payment deadline		25.04	25.07	25.10	25.01	25.03	-	cost
Case 1. – growth year with profit made in the first period								
1.	Actual taxable profit	500	150	300	N/A	50	1000	
2.	Quarterly system	80	24	48	-	8	160	5,72
3.	Annual system	27	27	27	27	52	160	3,06
Case 2. – year of decline								
1.	Actual taxable profit	50	150	100	N/A	200	500	
2.	Quarterly system	8	24	16	-	32	80	1,57
3.	Annual system	27	27	27	27	-28	8	3,06
Case 3. – year of stagnation with linear profit distribution								
1.	Actual taxable profit	156	156	156	N/A	157	625	
2.	Quarterly system	25	25	25	-	25	100	2,61
3.	Annual system	27	27	27	27	-8	100	3,06
The financing cost includes interest calculated for financing payments at a cost of 5,25% (current level of National Bank of Romania policy rate)								

Source: Own analysis and compilation of the text law

- **Changes in organization of company structure.** If reorganizations occur during the year (mergers, divisions, business's transfers) the tax profits of the previous year will be cumulated or divided in order to determine the anticipated corporate income tax payments for the companies established/ remained after the reorganizations. Yet it is not clear what is going to happen in the case of reorganization involving companies with different system of

taxation (e.g. merger of a company applying the annual system with another using the quarterly system), not the actual method to redistribute the tax payments (respectively how or whether the payments already made will be taken into account).

- **Corrections of the previous year's profit.** As the current year's payments are determined according to the previous year's profit, several questions arise concerning the corrections that can be made to the previous year and the time when they are made. If the corrections are carried out during the year for which anticipated payments are made (e.g. in 2013 for 2012) the remaining tax balance will be reallocated between the remaining payments deadlines. Therefore, it is worth mentioning that no late-payment penalties and interest will be owed, regardless the time of the year of the corrections. However, the legislation does not mention what happens if corrections are made and conducted to a previous year loss (a situation that in theory should invalidate the initial option to choose the annual system). It is not very clear either what is going to happen if amended tax returns are submitted after the year when anticipated payments are made (e.g. in 2014 for 2012), but we consider that it should have no fiscal effect.

We describe in table 3, three scenarios (growth, decline, stagnation) for a taxpayer with tax liabilities amounting to 100 units and an inflation index of 8%.

The following conclusions can be drawn on the basis of the above examples:

- The annual system is adequate in particular growth years;
- The profit seasonality is very important while even in the years of decline, if the profits are made mostly in the first part of the year, the annual system could be better suited;
- In 25 January (the deadline for regulate profit tax for the previous year) to be found only in the annual system, must be taken into account in the analysis as it can tilt the balance towards remaining and keeping the quarterly system.

5. CONCLUSIONS

Keeping in mind that could be situations where the annual system could be benefic for the company (e.g. fixed quarterly payment, the advantage of using it in growing economic times, easy way of computing and the choice in application) we consider that this measure is an opportunity for the tax payer.

On the other hand, the disadvantages (the correction of the tax could increase the fiscal penalties for two fiscal years, two compulsory application period and the fact that large companies calculate their tax profit quarterly or even monthly) it is to be seen how many contributors will opt for the new system.

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ADVERTISING OR PUBLICITY?

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Abstract: *Les dernières deux décennies ont été marquées par l'animation importante de l'activité publicitaire. La publicité pénètre dans les sphères de l'activité économique, sociale, politiques etc.*

Le redressement de l'activité publicitaire se produit en même temps avec la traduction et la publication de plusieurs ouvrages sur la théorie et les aspects pratiques de la publicité. Mais malheureusement, ces ouvrages, la plupart étant d'une grande valeur scientifique, sont traduits le plus souvent par des spécialistes activant dans de différents domaines très éloignés de celui de la publicité. Cela veut dire que ces traducteurs ne sont pas familiarisés avec les particularités de la publicité. A cause de cela, à notre avis, apparait toute une série d'interprétations des concepts utilisés dans la publicité. Il est bien regrettable le fait que souvent même le concept de la publicité est traité d'une manière erronées et les campagnes publicitaires mises au point par plusieurs firmes se voient développées en base de certaines théories ou modèles vagues à un colorés personnel. Le manque d'une interprétation unique de la publicité dans les ouvrages traduits a eu un impact négatif sur les ouvrages écrits par des auteurs roumains.

Le présent rapport est apparu en tant que nécessité de combler le vide existant quant à la modalité d'aborder l'activité publicitaire dans l'espace roumain. Comme point de repère nous ont servi la littérature et les expériences accumulées dans les pays aux riches et anciennes traditions publicitaires, tels que la France, les USA, l'Italie, l'Angleterre etc.

Keywords: *advertising, advertising, advertising, communications, media.*

JEL Classification: M31

Advertising is ubiquitous in market economies and is rapidly spreading in the former socialist countries, including Moldova. The effects that advertising has on the individual and social structures, due to the fact that it is broadcast by the media, it has become a significant factor influencing social life, even inducing changes in habits and behavior of a receptive audience. Today advertising is more than a means of dissemination of information about products, services or ideas.

It has become a very effective communication tool of the economic system and culture of each country. Advertising reflects thus society works and is "mirror" it. Advertising skyrocketing interest both practically and scientifically. We also consider that placing advertising as research object, means to deal with the following two points.

On the one hand, there is a confrontation with the discursive practice. Advertising, like any genre discourse is a phenomenon that is part of a historical period. Modern advertising could appear in an empty space, but - just in certain economic and social conditions. Knowledge of these conditions is absolutely necessary to better understand the essence of modern advertising.

On the other hand, there is a confrontation with multidisciplinary research practice. Indeed, research published in different ways, arousing the attention of several research areas: eg., Sociology, dealing with advertising as an expression of social and cultural realities, the psychologist who is interested in advertising as a means persuasion, marketing, advertising for a variable mix of communication and that has to be investigated as well as other variables, such as the product, the price, etc.

The fact that communication in general and advertising in particular, are treated in different ways by representatives of various disciplines leads to a number of interpretations of

the concepts. That is why there is a need to establish clear boundaries, able to avert certain confusions. Of the many conceptual issues, which should be taken into account in the research of advertising, we emphasize the following two points.

First, the countries of Latin origin are two words to describe advertising "advertisement" and "advertising". In fact, there is no single opinion on the use of these terms, especially in the literature of Romania and Moldova, where they offer different interpretations, some of which even distort the concept of advertising. Secondly, there is a fairly rich set of definitions of advertising and the lack of modern and functional definition determines the need to define this concept.

As mentioned, the countries of Latin languages are two words to describe the advertising communication "advertisement" [1] and "advertising" [2]. In recent decades throughout Latin space with rich traditions of advertising, except Romania and Moldova were shaped exactly the meanings and possibilities of use of these terms. The intention to introduce a dose of clarity propose a detailed analysis of the content of the terms nominees.

The analyzes are structured according to the following four areas: (1) the origin and evolution of "advertisement" and "advertising", (2) advertising infrastructures used, (3) confrontation terms based communication theories, and, finally, (4) the practice of using terms "advertisement" and "advertising" in different countries.

Given the fact that words of Latin origin nominees would be natural that serve as the basis for analyzes specific scholarly research in this area. The analysis conducted by the authors to the following conclusions. Modern advertising has not developed into an empty space, but has been influenced throughout its history by a range of social, economic and cultural.

Speaking about the evolution of advertising phenomenon, we find that in the literature there is a summary of the path traveled by advertising. For example, American literature (Russell, 2002, p 20), the path traveled by advertising is divided into stages, which allows generalization of the peculiarities of advertising and its influence factors at each stage.

However, in some papers shall be divided in stages, mainly in connection with the history of American advertising. For these reasons, structuring advertising development stages in our research was inspired by the world of advertising history. The public history can be divided into four periods: (1) It was homemade, (2) was the press, (3) was mass communication and (4) was research. In terms of the evolution of advertising, over time, there is a gradual shift to "notice" to "advertising" respectively, from "Report" to "public".

So, the term "advertisement" is "the predecessor of modern advertising in particular - called advertising today advertising editorial" and is an "outdated and even pejorative term to refer to advertising." It is pleasing that the Romanian sociologist and journalist Marian Petcu (2007, p 113-123) argues that in Romania there is a gradual shift from "anunciuri" to "ad-ad" and then to "advertise".

February.

Advertising will be able to develop, using a facility advertising minimized. The announcement was limited, usually to repeat that gave favorable opinions on products annunciater. Public attention was drawn to the slogan used. Often the arguments presented were filled with graphic embellished details. This work, bizarre, can be produced by different specialists. For advertising, information disseminated had unilateral, because the audience was one homogeneous and passive. The situation is different in advertising.

Marketing is the advertising campaign stage of business process and requires advertising agencies (brokers) to change their passive role. The advertising agency is required to review aces professional skills and play an active role in the advertising campaign, offering its customers a broad spectrum of services. Three. 1920 marks the debut of "construction" of scientific foundations of advertising, the public is the first fundamental work in the field.

Later, there are different theories and models, designed to stimulate, artificially consumption. One of these models is the stimulus-response (SR) (1950) model that relates the behaviorist theory (behavior = behavior), that advertising influences mechanically, the

consumer: multiple occurrences of the advertisement give rise behaviors "automatic" (mechanical) of customers, in other words, making a parallel with Pavlov's experiments - the conditional behaviors.

The analysis of consumer behaviorists is presented as being passive, uncritical and fully capable of being influenced by advertising. As a result, the main determinant of advertising effectiveness is the available budget and repeating messages. Creativity is minimized. Term "advertisement" is based exactly on this principle (Lendrevie, 2008, p 97):

Report message x = repeat

In other words, "advertising" is a pun, which acts mechanically on the public, and her creativity is reduced, often just to develop a slogan. The SR is quite simple and does not explain the mechanism of the entire public, which is quite versatile and sophisticated. For these reasons, were subsequently proposed a number of theories and models that take into account the complexity of publicity action.

It is necessary, therefore the following conclusion: the theoretical, "advertisement" means an advertisement Pavlovian (Lendrevie, 2008, p 106), or mechanistic advertising that can be successfully applied only in the case of ordinary, with high frequencies purchasing products with minimum implications, products for which the consumer does not need additional information. So these are the products for which less symbolic content and motivational type or psychosocial explanations are essential.

April.

It is known that in France, a country of Latin origin, with rich traditions advertising, which played an important role in the development of advertising [3], there is a unique interpretation of the terms "advertisement" and "advertising". The term "advertisement" is interpreted as synonymous outdated and derogatory publicity, even modern ones. Thus in France, any advertisement, both creative and simple, is called advertising or publicity.

While in Italy, as in France, the term "advertisement" is considered "obsolete term" ("usato "in Italian I) and synonym of advertising, sometimes it is identified with a little creative opinion drafted by lay (wo" quack "). However, in many sources stated that identification with advertising advertising (as synonyms) not assigned advertising character "quack". In English (U.S. and UK), to designate public, there are two terms: "advertising" [4] and "publicity", which are defined as (render original): "Advertising is defined as any paid form of nonpersonal communication about year organization, product, service, or idea by year Identified sponsor" [208, p.15].

"Publicity year refers to nonpersonal communications regarding organization, product, service, or idea not paid for or run under Directly Identified sponsorship" (Belch, 2001, p.22). The main difference between the term "Advertising" and "Publicity" is the fact that the first usually is paid, which means that "in exceptional cases, for public service announcements, advertising time and space donated by the media is "(Belch, 2001, p.15), and the second is free publicity.

In addition, first - the sponsor is identified and in the second - no, because "typically occurs in the form of a news report, publishing or advertisement of an organization and / or its products and services" (Belch, 2001 p.22).The fact that a form of advertising is paid and one is free, does not mean yet that the paid is commercial and the other - non-commercial.

Indeed, important, in our opinion, is to draw attention to the following point: in both cases, the subject of the communication is the same: "organization, product, service, or idea" - "organization, product, service or idea." So we can not say that advertising is a form of trade and other - non-commercial.Before knowing the translations from English into Romanian or rather the interpretations of Romanian language, it would be rational to present their translations in

French. The Economic & Legal Dictionary English / French - French / English offers the following translations:

January. advertisement (to distinguish advertising) - advertising, ad, ad;

February. advertising (to distinguish advertisement) (activity) - advertising [5];

Three. publicity - publicity. [6]

The French, being aware that "publicity" in the American concept, is a form of free advertising, translate, however, this term as "advertising", as the term "advertising" because in French conception, not the payment method of advertising, but its degree of creativity is an important criterion for the classification of advertising. We believe that the stalemate appeared on differentiation paid advertising and free, can be overcome by including in the definition of advertising has the words "advertising is a form of communication ... usually paid ..."

In Romania and Moldova entered diversity in interpretation of the terms "advertising" and "advertisement". First, advertising is widespread identification with commercial advertising. For example, the Explanatory Dictionary of Romanian language suggests the following alternative: "Report: 1. Activity (commercial) which seeks, by way of advertising ..., elicitation, gaining public interest on certain goods, some books, a show, use of services, etc.. ... "[7]. Interpretation is taken and a number of specialty publications, such as marketing and business dictionary, the authors C. Nita and M. Smith (1999, p 255) defines advertising as: "1. Action advertising with commercial ... "or marketing dictionary (English-French-Romanian).

Identifying a business ad is fundamental because, as I emphasized earlier, the theoretical, the applicant refers only to that part of the commercial activity related to mundane products. Secondly, a different vulnerability exists in Romanian literature is the interpretation ad as "paid form of mass communication." Interpretation that we find in the same dictionary of marketing and business "3. Paid form of mass communication, transpersonal, a standard commercial message ... "(Nita, 1999, p 255), or in his Ristea A.-L. (2001, p 217): ad "differs from advertising in that it is a commercial transaction; paid advertising." This last assertion is clear that advertising is not paid, contrary to statements on page 213 of the same work. Inaccuracy occurred originated in the source, or better said - the sources from which they were taken.

Advertising is defined as a French dictionary, and advertising - as an English dictionary which is not true, because only Latin literature is explicit terms "advertisement" and "advertising". Third, M. Nicola and D. Petre (2001, p.13) attempt to propose an interpretation of the concept "advertising" and "advertisement", stating that "... advertising means in particular the process, science dissemination commercials. Product advertising is effective advertising process (model, spot, etc.)..

This interpretation stems from the translation from English to Romanian of the term "advertisement" as "advertisement" and "advertising" - the "advertising", while advertising and communication bilingual dictionary (English-French) proposes the following interpretation: "advertisement" - ad: any advertising message transmitted through print media - interpretation that differs significantly from those found in Romanian literature. So those to whom we owe the emergence of the concept of "advertising" (French) mean by "actual product advertising process" "advertisement" or "advertising message." Identify the final product of the process of advertising "advertising" would mean, on the one hand, neglecting the fact that "advertising" is a milestone in the history of advertising and only at a certain stage of development of advertising, publicity she gave way. On the other hand, does not take into account the specific meaning of this concept: the creative advertising less prevalent as compared to the content.

Not incidentally, the Italians say that today advertises, "when it is created not by professionals, but by artists" (Trotta, 2002, p 91). In this sense, meaning the final product of the process requires advertising, indicate that these products are of quality and are designed not professionals. Or ask each time additional explanations such as the case of advertising on TV,

which broadcast advertising is not the creation process, but the final product and therefore should write "applicant" and not "public". Finally, it is regrettable, but it came to a situation where in some papers published in Romania in recent years no longer use the terms "advertisement" or "advertising", but a new term - "advertising activity type" (eg (Balaban, 2008)).

A number of Romanian authors acknowledge the appearance of confusion in interpreting the terms nominees and try to identify the sources of confusion. For example, C. Coman (2004, p.18) identifies the following two factors that contribute to this confusion: "a) the novelty of the field, where different practices have emerged not enough and b) semantic difficulties created by use this term in context and yet very different values." Referring to the view exposed by C. Coman, noted with regret that, despite progress in the "Accumulation advertising experience" confusion not disappear, but on the contrary it deepens and the appearance of papers in the field is based on various postulates error. For example, the authors D. Peter and M. Nicola, in their paper "Introduction to Advertising" (2009, p 110), referring to theoretical sources of advertising, emphasizes that "Since advertising can be seen as a typical product American society and culture, our approach starts with ...". A similar idea is met and C. Coman (2004, pp. 20-21), which seeks to clarify the meaning of concepts, advertising, concluding that "... is preferable, even in language specialists are used distinctions of terminology and American literature, much clearer conceptual and general ...".

Therefore, it is questionable that the advertising would be a typical American product, the simple fact that it only occurs in America by the year 1704, with the advent of the first American newspaper, which included advertisements (Russell, 2002, p 23). Mentioned that at the time the advertising was already about 5000 years history, history forged by more developed nations. The positive role played by the U.S. in developing advertising is undeniable, but it would be unfair to attribute all the credit just this country. American specialists in advertising J. Th. Russel and WR Lane (2002, p 23) notes that "Of the 5,000 years of history contemporary advertising to the contemporary era of satellite television, the most important begins when the United States is a great nation industrial, about 100 years ago. However, the early history of advertising is too fascinating to neglect it ... (emphasis added)."

It is clear that the major events that have contributed to modern advertising, occurred in Europe. However, from the moment of the first advertising agency develops gradually U.S. hegemony in advertising activity. This is explained by the fact that the conditions of work were most favorable publicity in this country ie where double liberal ideology, political and economic structures found few obstacles in pre-industrial social and cultural tradition aristocratic.

Golden period of American hegemony in advertising began in 1945 after the Second World War. Advertising penetrate U.S. agencies all over the world, and few national advertising industries are able to compete. In the U.S. competition only lasted three national industry: France, Japan and South Korea. American hegemony ends in the late '70s and global advertising market to install the following main players: the U.S., UK, Japan and France, that transforms the advertising industry "in a network of third generation" - a generation transnational networks. Arguments presented by Romanian authors nominees were led to a number of "solutions" proposed to address the situation created in the use of "advertisement" and "advertising". For example, C. Coman (2004, p 21) calls to translate advertising through advertising and publicity through advertising, even suggesting some criteria under which it can make the difference between publicity and advertising, ideas, taken by D. Popa (2005, p.15). Analyzing the criteria proposed by C. Coman, we find that according to the author advertisement / advertising is characterized by: That it is always paid. (1) Conveying commercial information; (2) Purpose: selling products promoted etc.

We note that all three criteria proposed by C. Coman and D. Popa taken, contrary to the American concept of "advertising". In our opinion, the tests on the one hand, Cristina Coman to

eliminate confusion between "advertising" and "publicity" using American terminology "more clear and general conceptual" and, on the other hand, the Mihaela Nicola, along with Dan Petre (2001, p.18) by statements such as: "For these reasons, sometimes" accurate conceptual ", we use the term in the English language" - emphasis added, mostly influenced Romanian part terminology.

Currently, the negative influence of these authors or "conceptual accuracy" feels very clearly: some authors, as noted previously, already substituted the term "advertising" by "type advertising communication" (eg, Delia Balaban, Mirela Abruban (2008), and translators of the book of Jim Aitchison (2006) does not even use the term in its title advertising, but - advertising. It is interesting example cited by Septimius Chelcea (2012, p 16) about how uninspired translation of the title of the work of Martin Lindstrom Brand SENSEE Read more. Build Powerful Brands Through Touch, Taste, Smell, Sight, and Sound (2005) Romanian version as: Brands sense. Build strong brands using all 5 senses (2009).

I wondered - continues S. Chelcea - if famous Danish journalist and advertising analyst knows that the five senses covered (touch, taste, smell, sight and hearing) is not "all" that is equipped sensory channels the man. Surely he knows, but the editor or translator still have not found...

We believe that, unfairness lies in the fact that we do not take account of Romanian origin. Romanian language does not come from the Anglo-Saxon group, where we try to take over concepts, which in turn was taken from Latin, of which our language. As proof we opinions of two great Romanian specialists, diametrically opposed views on the above, obtained by analyzing French Latin terminology. Great Romanian sociologist and professor, Septimius Chelcea (2006, p 134), in his "public opinion: strategies of persuasion and manipulation" refers to the interpretations proposed by Mihaela Nicola and Dan Petre for the terms "advertisement" and "advertising" , stressing that "the term advert (commercial) and its derivative term advertising (advertising) come from Latin, advert, meaning" to turn you into something. " As some Romanian specialists, continues the author, "in this text will use the term" advertising "as equivalent both for advertising and for publicity." It is regrettable that the last work Septimius Chelcea (2012, p.14) gave up and use alternative terms "advertisement", "advertising" and "advertising" with the meaning of persuasive communication.

Another great sociologist, journalist and teacher, Marian Petcu (2007, 115) notes that "if you have to be consistent with the Anglo-Saxon terminology, the messages we encounter in different media would be wrong of us called advertising if we limit the transfer of publicity, is the correct form of advertising. " .

Indeed, as I emphasized earlier, advertising is less creative and more informative, it is closer to the publicity, which "occurs usually in the form of a news story, editorial or ad about an organization and / or its products and services "(Belch, 2001, p.22). It's gratifying fact that Marian Petcu (2007, p 117) is aware that being consistent with the Anglo-Saxon terminology as do the vast majority of published authors, we are at the same time, inconsistent with the terminology of Latin-French branch, to which we belong. "After the change of political regime in 1989, the Legislature passed a law on advertising, so devoted form advertising.

Therefore, we continue to call "advertising" messages based on a contractual relationship (surcharge) due to the broad term (and its uptake pathway French Latin) ". Arguments sociologists and teachers Septimius Chelcea and Marian Petcu are quite relevant, but, unfortunately, the situation in Romania advertising terminology remains: the direct influence of the Anglo-Saxon terminology which, in turn, as noted above, is inspired The Latin terminology.

The situation in this respect in Moldova is even more sad. Feels a double influence on the one hand, the literature in Romania, where, as we have established, there is still no consistent interpretation of the terms of nominees, and on the other

hand, Russian literature, where there is only one term, the "реклама" translation which is at the discretion of each author. The situation is even sadder when, Russian term "реклама" underlying reasoning in Romanian to use the word "advertisement". There is only one positive and promising in the field of advertising: R. Moldova and Romania, after independence, adopted a law on the advertising: Moldovan Law "On Advertising" (No. 1227-XIII of 27 June 1997) (Official Gazette, October 16, 1997). The law covers not only nominated free advertising ("publicity" in English), but also to the commercial ("Report", as some call it wrong) because there was a law on advertising. Merit authors of this law is not limited to its name, which sought to legalize the use, primarily, the term "advertising", but the official definition of the concept.

Advertising (Advertising) - information about people, goods (works, services), ideas or initiatives (advertising information material), designed to attract and sustain public interest to them, to help their marketing and to raise the prestige of the manufacturer (Moldovan law "On Advertising" (No. 1227-XIII of 27 June 1997) (Official Gazette, October 16, 1997).

The official definition of advertising is almost perfect, except for some moments, for example, the word "information" because advertising can not be confused with the information. But this is not the principal. Definition from home indicates that advertising is treated as synonymous with advertising, suspecting the obvious question: why is the only Moldovan Law "On Advertising" correctly interpret concepts of "advertisement" and "advertising"? As a result, we formulate the general conclusion": Advertising" can not be confused, in the strict sense, the "Report" because there are differences both from the semantic (advertising has a broader semantic content) and in terms of production and transmission requirements advertisement. Meanwhile, the fact is that advertising preceded Advertise representing an important stage of its history, and only the result of the industrial revolution occurred "modern advertising" more creative, thanks to the creative use of new techniques and new ways of advertising messages for their distribution.

In this situation, it is absolutely correct to interpret the "Report" as "synonymous with advertising." Another important research related to advertising, is to define the concept. Here, in our opinion, should consider the following points. First, advertising is a very complex phenomenon and not limited to a single form to commercial. Secondly, the research involved representatives from different areas of advertising (cybernetics, psychology, sociology, etc.) that relate to this phenomenon through the laws that govern their areas of research.

We share the view of American researchers in the field of persuasion Robert Gass and John Seiter (2009, p 41), according to which: "The definition of a concept is similar to erecting a fence. The purpose of the fence is to separate things, so that some remain in, and others besides. Similarly, the definition includes certain elements or aspects of a concept, excluding others. "Advertising specific communication types depend on the size and shape" fence "built by a particular author. For these reasons there is a multitude of definitions of advertising.

Although we believe that there should be only one definition of advertising, however we believe that a modern and functional definition should not only identify, but also to resolve the differences between the various definitions. This is only possible by identifying the criteria that determine the basis for a restrictive definition. Following in-depth analysis of a number of definitions and inspired by the works of Wells W., J. Burnett and Moriarty S., Bowe KL and Arens W.F. I have concluded that a modern and functional definition of advertising should include the following eight elements or restrictive criteria (the fence): ? Advertising is a form of mass communication. In fact, by this is meant that, on the one hand, the advertisement is a communication component of the blend, and, on the other hand, the advertising occurred with the advent of modern communication table?

Advertising is a form of transpersonal communication because the advertisement is addressed to an identified person, but a group of people (consumers, citizens, believers, etc..) Called "target group" or "target audience". Advertising is not, therefore, an act of direct communication between people. In the case of direct, often occurs by indicating the

identification of the recipient's name. But even in this situation, it is not a personalized communication because time is part of the person concerned and her name is printed by computers.

Advertising usually is a paid form of communication. Advertising, in large part, is paid by the general partner - the sponsor, except, of course, those with social and so on, who are unpaid. For example, in the U.S., advertisements of "American Red Cross" and "American organizations fighting cancer" are systematically disseminated freely.

For an ad to be advertising is essential to identify the sponsor. Indeed, the sponsor usually want to be named, otherwise it is meaningless advertising? Advertising uses different media channels (press, television, radio, cinema, billboards and the Internet), which leads to the fact that the target audience is large compared to other means of communication. To indicate that it is a media advertising and not advertising beyond, it is necessary to include this element.

Advertised is quite broad and includes organizations, products, services or ideas. An indication of advertising in general is absolutely necessary because only this would exclude the possibility of such erroneous interpretations definitions 3 and 4 of C. Nita and M. Smith, the subject of advertising is reduced to "products" or "real estate values." This will avoid confusing the public with its forms and it would be possible to incorporate the concept of advertising, both, business, humanitarian, social, cultural and political.

Most advertising messages are created usually by advertisers. As noted previously, modern advertising differs from the old advertisement, both in form and in content. This became possible thanks to the emergence of specialized advertising agencies. Course meet, successful cases of creating advertising messages by unprofessional people, but these situations are very rare.

The ultimate goal of advertising is reduced to changing attitudes and / or behaviors intended audience. The goal of advertising is quite broad and not limited to a commercial, as stated in some definitions. Thus, we propose the following definition: Publicity / advertising is a form of mass communication transpersonal usually paid by an identified sponsor, which means the media through choice, addressed an advertisement prepared usually by an advertising agency and for a targeted audience to achieve their goals proposed communication regarding an organization, product, service or idea.

From the proposed definition we find the following two very important points: **January** - Advertising is not only commercial, despite the fact that it is used mostly by Commercial firms. The advertisement calls and "a wide range of non-profit organizations, professional and social agencies which announce their cases to the public concerned" (Kotler Ph., G. Armstrong, 2005, p 715), some of which do not pay expenses incurred for advertising. For these reasons, the definition is stated that "mass communication is usually paid ...". **February** - Definition indicates that the final product of the process of creating advertising is "advertisement", which excludes confusing, on one hand, the end product of the work of publicity "claim" as proposed in some works in Romania. On the other hand, the advertising - with the information. Between advertising and information related there are profound differences as to form (the information is more detailed than advertising) and content (information used language description of the product, and advertising to convince the target audience).

Modern advertising have to walk quite a long way to reach the level reached today's creativity. The test results presented we conclude that there is a gradual shift from ad (in Romanian anunț) in advertising and then modern advertising that cannot be confused, in the strict sense, the "ad" because there are differences both from the semantic (semantic advertising content is wider) and in terms of production and transmission requirements advertisement. Meanwhile, the fact is that advertising preceded Advertise representing an important part of its history, and only the result of the industrial revolution occurred "modern advertising" more creative, thanks to the creative use of new techniques and new ways of advertising messages

for their distribution. In this situation, it is absolutely correct to interpret the "Report" as "obsolete synonym of advertising."

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[1] The word "advertisement" comes from the Latin word "complaint", which means "shout" or "announced" (in Rome and ancient Greece announcements made aware aloud markets or other crowded places). In L. French - "report".

[2] The word "advertisement" is of Latin origin "publication" which means "to influence the public".

[3] As an example we quote: The creation, in 1631, the Paris of the first agencies to inform the doctor Theophraste Renaudot, considered the father of printed advertising in Europe. Renaudot creates "La Gazette" where public advertising. The first notice advertising published in this newspaper in 1631, was the information about the size of the premium will indicate the whereabouts of 12 horses stolen. In general, the first agency of Renaudot, political propaganda and advertising deal the same side as economic.

[4] In the eighteenth century, the English take the formula of "office" of Renaudot and adapt to their conditions, calling it "advertising". Therefore, advertising designation occurs by 1655, the English word "advertising" and in French literature terms 'ad' or 'ad'. "Advertising" comes from the Latin word "advert" ("warn", "inform" in L. French - "avertir").

[5] Dictionnaire Economique & juridique. Français - French / English. Paris: Le Livre by Poche, 1996, p.5.

[6] Ibid, p 156.

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TYOLOGICAL ANALYSIS OF PROJECTS

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Abstract: *The paper is mainly focused on the analysis of typologies of existing projects in Romanian and international specialized literature and on developing a new typology based on the results obtained. The purpose of this analysis is to complement the level of knowledge in the field of project management considered a vital source of welfare, nationally and internationally. The result of the analysis consists of a new typology of projects which enables distinguishing the existing categories of projects depending on the definition of objective. The necessity of such a study is motivated by the fact that project management is a specialized field of management and modern working method that meets the need for change, whose importance is growing, as evidenced by the extent its approach knows in the specialized literature and its increasingly high popularity in the last decade. Typological analysis conducted under this paper reveals the growing interest of specialists for the projects and for the creation of new types of projects, as well as more complex and elaborate, as science and practice in the field develop.*

Keywords: projects, management, typologies, criteria.

JEL (Journal of Economic Literature) Classification: M 20.

1. INTRODUCTION

The science and practice of project management globally have recently had a spectacular evolution, with a particular impact on all types of organizations, imposing a new way of conceiving development in terms of project, with focus on developing and implementing coherent development, planning and organization strategies.

These changes require the identification of more elaborate types of projects that would contribute to their classification in certain categories, facilitating their definition and planning. The paper begins with a survey of secondary sources that combines a number of methods and techniques adapted to the objectives, i.e. a recent study conducted by scientific documentation and which is completed by the development of a new typology of projects.

2. PROJECT TYPOLOGY

There is a very wide variety of projects. The typology of projects has been the concern for a large number of specialists. A first classification of projects considers a number of their characteristics, such as scale, industry and size (Scarlat&Galoiu, 2002):

1. Depending on their scale:
 - organizational;
 - local (city, county, group of counties);
 - national;
 - regional (the project is of interest for several counties in the area concerned);
 - international.
2. Depending on the project's objective and activities:
 - industrial projects;
 - social projects;
 - commercial projects;
 - cultural projects;
 - environmental protection projects;
 - scientific projects (research);
 - educational projects;

- project management.

3. According to their size:

- small projects: this type of projects do not exceed one year, have low values, allow part-time employment, modest technological demands and allow direct, daily tracking daily;
- medium projects: have terms of between two and three years, with average values, where part-time and full-time employment are allowed, have average technological demands and their tracking is achieved through regular reporting;
- large projects: have long terms, of more than three to five years, they have a high value and allow only full-time employment, have competitive technological demands, turn to the specific tools and programs, and their control is achieved through reporting.

Another typology of projects can be designed based on two elements: the type of product (tangible, physical entity, and intangible, with abstract, intellectual value) and the type of activity (physical or intellectual). By combining these criteria four types of projects can be obtained (Wideman, 1998):

1. Tangible product and physical work (standard example is given by construction projects).

Such projects have the following characteristics:

- project activities alleged are largely the same, efforts are repeated;
- sources of variation are reduced;
- resources are predictable;
- the costs involved are relatively high.

2. Intangible product and physical work (standard example: revision of policies and procedures). The basic characteristics of this type of project are:

- it is based on a previous model;
- changes, adjustments and improvements are brought to the previous model;
- resources are predictable;
- costs are relatively small, only required to operate these changes, and to multiply the new product.

3. Tangible product and intellectual work (standard example: development projects of new products, investment projects). As features, there can be mentioned:

- they are not based on a model or an already existing thing;
- efforts are not repeated, approaches are multiple;
- resources are not so predictable, they can not be anticipated rigorously;
- costs vary.

4. Intangible product and intellectual work (standard example: research and development projects).

These projects:

- involve creative work and innovation;
- efforts are not standardized from one stage to another of the project, but differ considerably;
- involve exploration work;
- do not rely on something existing;
- resources used are unpredictable;
- costs are unpredictable and usually high.

The focus was set on presenting this typology to highlight first that, from the first to the fourth type of projects; risks are growing significantly, but so does the number of possibilities, the opportunities that can be exploited to obtain the most efficient results. Moreover, inclusion of the project in one of these categories facilitates the work of planning and execution.

Theorist Dennis Lock classifies projects into four categories (Lock, 2000):

- construction projects, petrochemical, mining, quarrying - this type of projects are the most popular, with high visibility. They involve risks and special problems of organization and communication often require massive capital investment and rigorous management of activities, resources and quality;
- industrial projects - aimed at producing specialized equipment, the finished product being built specifically for a particular customer. Usually this type of projects are conducted in one of the company's plants allowing the direct on site management and creating a favourable work environment;
- management projects - these projects are considering the management and coordination of activities necessary to achieve a finished product that differs in principle from industrial or construction products;
- research projects - involving the highest risk, their ultimate objectives are usually difficult or impossible to define and may not engage in project management methods applicable to industrial projects or management projects.

The differentiation of projects undertaken by theorist Lock according to the objective is not complete. There are categories of projects such as environmental projects, social projects, cultural and educational projects that do not fit in any of the listed categories of projects.

Another classification of projects envisages dividing them into three important groups (Mocanu&Schuster, 2004):

- investment projects (construction of a new building, restoration of a historic monument, retrofitting of a bank);
- research and development projects (developing a new product, a new technology, the development of a new software);
- organization projects (introduction of a new marketing concept, introducing project management as an alternative form of leadership, broadening the market segment).

The first category of projects' classification according to Mocanu& Schuster approach, namely the investment projects can encompass the other two categories as the development of a new technology or the introduction of a new marketing concept are changes that involve a number of resources and can be considered investments.

Robert Turner differentiates projects based on how well are defined the objectives and methods for achieving them. Using this criterion, the author identifies four categories of projects (Turner 2004):

- Type 1 - goals and methods will be better understood if the project is very similar to those performed in the past. The focus will be on adapting processes already known to the particular situation of the project, appealing to specialists in implementation.
- Type 2 - the objectives are well understood, but they are original, although it is not yet know how best to achieve them. Emphasis will be on brainstorming techniques, resorting to multidisciplinary teams made up of people able to contribute to the process.
- Type 3 - objectives are unclear, but in order to define them, a well-defined lifecycle will be used. The focus is on the definition of assets and teams of specialists are involved, who have executed similar things in the past because they have experience of standard life cycle to be attained.
- Type 4 - neither any goals, nor methods are known. Only the problem to be solved is known, so the focus is on solving this problem, on identifying the product that will solve the strategic problem and then the project will be treated as type 2.

Achieving this classification by the authors actually wanted to highlight a number of negative effects (unclear objectives) that may occur due to the start of the project without adequate provision of project management, focusing on the importance of a professional approach to projects.

Turner identified other criteria of differentiation of the projects, such as: project goals, degree of implementation, degree of repetition, type of project's owner, the complexity and reference to the company's processes.

3. DEVELOPMENT OF A NEW TYPOLOGY OF PROJECTS

The above classifications will allow making a new typology. Therefore, based on the classification made by Turner, the types of projects analyzed into the four categories can be classified (Type 1, Type 2, Type 3, Type 4), defined according to the way of defining the objectives. As shown in Table 1, classifications receiving characteristic of type 1, type 2, type 3 or type 4 are made according to the objective and activities of the project, by type of the product, type of activity and classification in Mocanu&Schuster approach.

Thus analyzing the data from Table. 1, it can be concluded that projects falling under type 4 are research projects, aimed at obtaining intangible products through intellectual labour. Type 3 feature has been assigned to cultural projects, organization projects and projects aimed at achieving tangible products through intellectual work, because the objectives are not clear, but the means of achieving them are known. In the category of type 2 projects that pursue novel objectives, there are four types of projects, namely industrial projects, social projects, environmental projects and industrial projects. Five classes of projects analyzed get the type 1 feature, based on similar, previously undertaken projects.

In the specialized literature there are many approaches to the typology of projects, some of which focus on the scale and scope of the project, others on the type of product resulting from the project and degree of complexity, while a number of projects that take into account the field of activity, duration and funding source of the money.

Table 1: Classification of typologies of projects analyzed into project categories differentiated by defining the objectives

	TYPE 1	TYPE 2	TYPE 3	TYPE 4
<i>Depending on the field of the objective and project's activities:</i>				
Industrial projects		x		
Social projects		x		
Commercial projects	x			
Cultural projects			x	
Environmental protection projects		x		
Research projects				x
Educational projects		x		
Management projects	x			
<i>Depending on the type of product and type of activity:</i>				
Tangible product and physical work	x			
Intangible product and physical work	x			
Tangible product and intellectual work			x	
Intangible product and intellectual work				x
<i>Mocanu&Schuster:</i>				
Investment projects	x			
Research and development projects				x
Organisation projects			x	

Source: *the author*

All projects, regardless of the pattern in which they are employed, depend on many factors (duration of project definition and related costs, the amount of information and level of

detail, the time required for documentation, involvement and expertise of the team and the project manager), which eventually lead to a successful project.

4. CONCLUSIONS

The paper, through the study conducted has put project management at the heart of a large number of experts' attention, their number increasing with the complexity of the projects. In the current economic climate, flexible and innovative organizational structures are required in organizations, enabling rapid response to the environment, market orientation, assimilation and timely processing of new information.

Management concepts must be developed to allow employees' personal involvement and personal, individual accountability. Therefore, project management, as part of a modern concept of organizational management can be a first step towards asserting employee spirit of cooperation and openness to new.

Recently, project management has benefited from a spectacular evolution, favoured by a number of changes that have occurred on the way it is applied, the performance that can be achieved, and the benefits that can be obtained through the implementation of projects.

To meet this need, the article developed an elaborated typology of projects drawn from analysis of existing typologies in Romanian and international literature and their classification into four types of projects, depending on the definition of project objectives and how to achieve them.

The new view on project management contradicts the traditional opinion that, in order for a project to be considered successful the manager has to complete the project in compliance with the triple constraint of time, cost, and performance. Today, the success of a project is measured by the extent to which its objectives have been achieved.

In this context, a new typology of projects that classifies the categories of existing projects in new types according to the way of achieving the objectives is more than beneficial. Thus, companies seeking to innovate and become market leaders need to develop projects based on clearly stated objectives, have the ability to control and predict the risks without following a specific set of selection criteria.

The paper, through the results obtained, may contribute to increased efficiency in the practice of project management, leading to the construction of a society based on projects followed by a recovery of the Romanian economy.

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LOGISTICS AND THE VALUE CHAIN

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Abstract: *The value chain can therefore be defined as the technique of decomposition of the firm's global activity into relevant activities in terms of strategy, in order to understand cost behaviour and identify existing and potential sources of differentiation. The relevant level of the value chain is that of the company's activities in a particular branch. The differences between competitors' value chains are a key source of competitive advantage. The value chain of a company may be different for different items in its product line. The value chain shows the total value and consists of value activities and margin value. Value activities are distinct activities physically and technologically speaking which the enterprise runs. Margin value is the difference between the total value and the collective cost of performance of value activities. Each value activity uses production inputs purchased, human resources and a form of technology to perform its function. Each value activity uses and creates information, performance parameters and statistics of failure of the product. The organization appropriately sizes the activities to the value chain. Economic and managerial practice revealed a tendency within organizations to exercise those activities that generate superior economic results.*

Advantages of cooperation with customers and suppliers in the supply-delivery chain bring new perspectives for the development of freight logistics and reconsidering its contribution to the value creation process.

The three areas of logistics are an integral part of the value creation process. Logistics operations are linked to the value chain which is a tool to identify new ways to create increasing value for the customer.

Keywords: value chain, logistics, competitive advantage

JEL (Journal of Economic Literature) Classification: L19

1. OVERVIEW ON THE VALUE CHAIN

By definition, the value chain means the function that a company adds value to the goods or services that the organization sells to customers with and for which he receives remuneration. (Value chain, available at <http://www.esupplychain.eu/>).

For Porter and Millar (1985) the value chain "is a system of interrelated activities, which are connected by various links", and can be divided into distinct economic and technological activities, activities used by the company in its business and which affect the cost or effectiveness of other activities. Each of these activities would be a valuable asset.

New generic types of activities were identified by authors, and they were classified into two groups: support activities (assistance activities) and primary activities (main), as shown in Figure 1. The four support activities are: the company's structure, human resources management, technological development and acquisitions.

The five primary activities are: input logistics, operations, output logistics, sales and marketing and service. To be performed, each of these activities require a physical component and a database component (to be processed), which is why information technology (IT) has a major impact on the value chain. (A look at the aspect of value, supply and issues relating to strategic alliances, available at <http://www.scribde.com>)

The concept of *value system* is an extension of the concept of value chain, showing the value chain from suppliers to consumers.

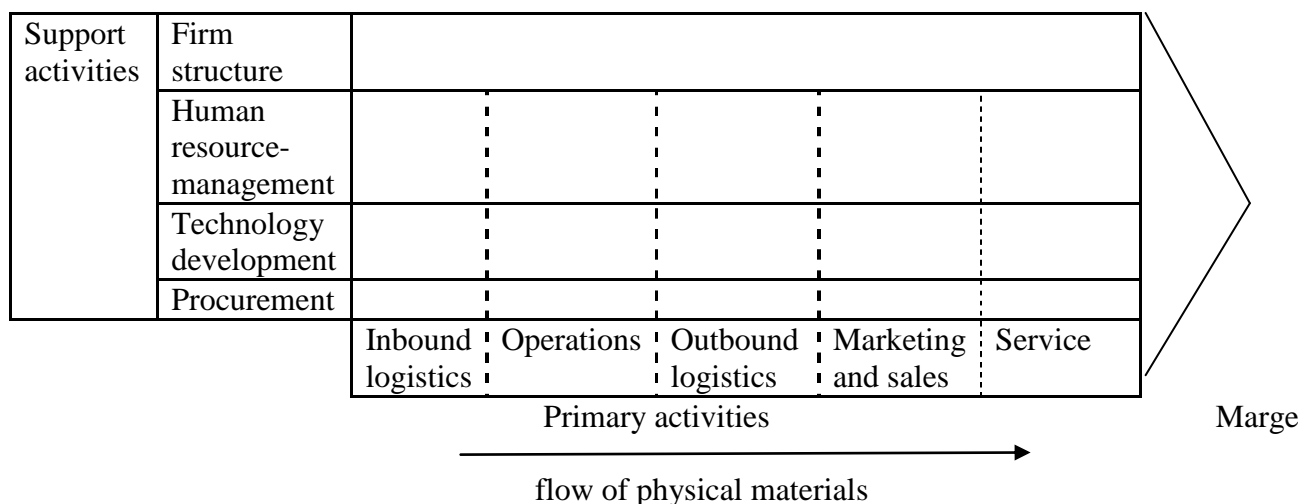


Figure 1. Value chain
(adapted from Porter & Millar ,1985)

Main (primary) activities are generated by:

1. Domestic logistics:
 1. Reception of raw materials, materials, semi-finished products;
 2. Handling of raw materials, materials, semi-finished products;
 3. Storage of raw materials, materials, semi-finished products;
 4. Maintenance;
 5. Scheduling vehicles;
 6. Relationships with suppliers.
2. Production:
 1. The transformation of raw materials, materials and semi-finished products into finished products;
 2. Operation of machinery, etc.
3. External logistics:
 1. Storage of finished products;
 2. Use of transport vehicles;
 3. Order processing and setting deadlines, etc.
4. Trade:
 1. Product production, advertising;
 2. Selection of distribution channels;
 3. Relationships with suppliers;
 4. Pricing, etc.
5. After-sale services:
 1. Installation;
 2. Repair;
 3. Staff training (training);
 4. Spare parts supply and product adjustment.

Support (assistance) activities are generated by:

1. Human resources:
 1. Recruitment;
 2. Personnel selection;
 3. Personnel training;
 4. Staff assessment;
 5. Determination of the remuneration system;
 6. Labour relations.

2. Supply:
 1. Acquisition of the means of production (investments);
 2. Acquisition of work equipment, etc.
3. Purchase of raw materials, materials, subassemblies.
4. Technological development:
 1. Document preparation techniques;
 2. Product, process technologies.
5. Infrastructure:
 1. General Directorate;
 2. Finances;
 3. Legal department;
 4. Quality management, etc.

2. LOGISTICS AND VALUE CHAIN

Today, logistics is considered a power that connects all enterprise with customers and its suppliers through two interrelated flows - the flow of goods and the flow of information. The content of this concept is broader than the physical distribution. Many experts feel that the physical distribution is only one component of logistics. (Sima, E., 2011) From such a perspective, in a producing enterprise, the logistics system includes *three major components*:

a) physical distribution: in marketing channel, physical distribution operations performed by the enterprise aim at ensuring product availability for customers. The aim is to provide utilities of the form, quantity, time and place, demand and expectation levels downstream the marketing channels in which the company is involved

b) activities supporting the production: the area of logistical responsibilities does not include effective deployment of the entire production process. Logistics' contribution to production refers only to providing materials, components and products in process, in the quantities necessary to conduct production activities in accordance with previously established production schedule. All activities aimed at supporting production aim the material flows within the enterprise

c) supply: purchasing activities of raw materials, materials, components or finished products necessary to meet company's objectives are logistical operations. This component of the logistics system refers to the relationships established between the firm and its suppliers, or the levels upstream of the enterprise.

Logistics efficiency involves linking the three components reuniting activities both within the company and at the interface with upstream and downstream sequences in the marketing channels (Kotler, Ph., 2002).

It can be noted that the logistic value chain activities play a determinant role. Achieving customer satisfaction can not be achieved simply by delivery of a physical product with certain characteristics, but it involves providing a range of associated services such as warranty, service warranty and post warranty, ensuring spare parts, home delivery and installation and commissioning, operational safety, insurance services, etc. of the product. Including these services in the company's offer implicitly assumes providing logistical support for their development, the logistical effort therefore extending beyond the purchase process itself.

Differentiation through diversification of services associated with the product and even the market micro-segmentation increased the importance and complexity of the enterprise's logistics process.

In modern and very complex economy there are rarely longer meet the situations where the manufacturer can directly sell the merchandise. Products reach the customers through various distributors. It happens more often that customers are more loyal to distributors than to producers because of the value added services they provide (Content, role and functions of the distribution of goods, available at <http://conspecte.com>).

Services that can add value include: specific customer labeling; after sales service; re (organization) pallets; quality control for entry and exit; adding documentation; repacking; packaging solutions; Pick & packing up to the level of the unit (with or without special equipment, specific to the products); development and application of delivery information on the products transported (Value-added logistics, available at <http://www.essers.com>).

Within the legal framework (depending on the type of transport and destination) the following documents can be provided: CMR; Packing List; Delivery Notes; Invoices; ATR documents; ADR documents; DGD (IMO); Tremcards; customs documents.

Sometimes more than just logistics activities are offered. Thus for example production planning is aligned with the total time for transport. In this way "Just in Time" production and delivery operations are executed.

3. CONCLUSIONS

Each activity must be regarded as a potential source to add value to the company. The different types of activities can be areas of competitive advantage for the organization. The organization must be seen as a set of heterogeneous resources, opportunities and key skills that are used to gain market position and create a competitive advantage. To create a sustainable competitive advantage it is necessary to analyze in detail all areas generating value.

Essentially, the total value for the customer is all benefits expected from a product or service. Customer value is the difference between total customer value and costs of the assessment, collection and use of that product.

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THE ROLE OF CAPITAL MARKET IN ECONOMIC DEVELOPMENT

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Abstract: *The Romanian stock activity officially began with the opening of trade exchanges in 1839, followed by the official opening of the Bucharest Stock Exchange in 1882, but was closed during the world wars. The Current situation of Bucharest Stock Exchange received an upward trend, supported by GDP growth and consolidation of the disinflation process. In 1995 Romania began trading at the exchange. First trading day was November 20. During the remainder of the year were traded shares of 9 companies. The Romanian trend in stock exchange market has been given many opportunities to foreign investors. Like any emerging market that has attracted investors in periods of growth due to potential investment multiplier much faster than mature markets but at the same time periods more troubling withdrawals of foreign capital were much faster and more significant value than would have been a mature market.*

Keywords: *Stock market, exchange, trade, bonus, bank*

1. APPRECIATION REGARDING THE ROMANIAN CAPITAL MARKET AND INVESTMENT OPPORTUNITIES OFFERED. HISTORY, ROLE, WORKING PRINCIPLES OF BUCHAREST STOCK EXCHANGE

In Romania, the stock activity officially began in the second half of XIX century, once with the opening of trade exchanges in 1839, followed by the official opening of the Bucharest Stock Exchange (BSE) in 1882. Since December 1882 started to be published the most important Romanian commercial public stocks quotations.

From setting up the installation work of the Communist regime took stock of Romania, with gaps of rigor, ascending dynamics, comparable in scale and synchronized with the work of major stock exchanges in developed countries.

Operation BSE was influenced by socio-economic events of the time was closed during the world wars. After the War, however, revitalized the stock exchange was highly speculative spirit of the participants in the market, registering important growth of stock prices transportation companies, banking and insurance. Starting in 1925, but the unhealthy economic behavior of issuers, and several issues of shares, investing money in development and distribution of fictitious dividends contribute to the accumulation of tensions that will trigger a serious impact on the crisis in 1929. Recovery began in 1933, when the ascendant of the shares was resumed in 1939 registering the maximum. Activity Exchange Effects Exchange Shares and break again in 1941. Resumption of work is carried in stock in 1995. this institution, few companies are joining to share Exchange. Since 1997, however, is a year that the BET value, trading value and market capitalization progressed beyond expectations. Future development of BSE marked maturity, its alternating performances until 2001 when it reached a new performance: surpassing \$ 1 billion capitalization, equivalent to 3.56% GDP.

Some recent major events that marked the evolution of scholarship are listed below:

April 21, 1995: Establishment of the Bucharest Stock Exchange -24 founding members;

October 1996: Launch of a new clearing-settlement system, also integrated the transaction - Equator;

September 1997: Launching the main stock market index, which includes the most liquid 10 companies listed in Category I - BET;

April 1998: Launching the stock market composite index, which includes all companies listed in Category I and II, except the SIFs - BET-C;

November 2000: World's first stock market sector index that includes the 5 SIFs: BET-FI;
August 2001: The Code of Corporate Governance in line with OECD principles and introduction Plus category;

2001: Organizing two international conferences on corporate governance, in collaboration with OECD, the first of its kind in the region;

2002: Evolution scholarship this year designation determined by analysis made by Standard & Poor's Fund Research as the best performing stock in the world due to the increase with 96.3% in pounds sterling. It is an encouraging sign, but the increase is significant, because the size of transactions and market capitalization fall BSE as a small grant to the other existing scholarship in the area and economic development (or rather., Economic recovery) in recent years has a much higher impact on the development of BSE. The law provides new requirements on market transparency, the companies listing on a regulated market, banning capital increase by contribution in kind (with some exceptions), mandatory capital increase, but not for companies in the state as shareholder, banks can become as 2005 companies providing financial investment services, the introduction of cumulative voting, introducing the possibility of trading rights award / subscription.

- BSE corresponding member of the European Federation of Stock Exchanges (FESE)
- Year 2003:
 - Listing and trading of the first corporate bond issue issued by Sc Impact Bucharest;
 - Member of Federation of Euro-Asian Stock Exchanges.
- Year 2004: Unification of the Bucharest Stock Exchange RASDAQ;
- Year 2008: did not appear www.kmarket.ro reports, analyzing only what is found on bvb.ro

2. THE CURENT SITUATION OF BUCAREST STOCK EXCHANGE

Macroeconomic performance recorded in Romania in recent years was enrolled on an upward trend, supported by GDP growth and consolidation of the disinflation process. Improving macroeconomic situation was visible growth fund investor confidence in the Romanian economic environment and boosts the stock market. This situation can be seen only by studying the number of issuers of securities investment and number of transactions carried out at the stock exchange, annually, since its opening. In terms of number of listed companies is to see a strong growth in 2000-2001, when they were taken to delisting as a result of implementation of conditions of growth of capital and market capitalization similar to European standards. Since 2001 the situation remains constant, which revealed a stabilization of Romanian stock market, as emphasized by the appearance and issue bonds, municipal first and then the cooperative.

3. ANALYSIS OF HISTORICAL PERFORMANCE AT THE BUCHAREST STOCK EXCHANGE

1995: This is the year that began trading at the exchange. First trading day was November 20. During the remainder of the year were traded shares of 9 companies. These are companies with majority state, very different sizes and importance - of the Meat Wagons Astra Arad and UAMT Arad. A company is potentially interested Sanevit because public subscriptions run before listing, but will prove that this evolution will be the weakest of the shares were ever listed on the exchange. Investors have not received dividends this year (because they are distributed in the spring) and no capital increase. Shares have generally evolved descendant: the new companies listed, 5 were low and only three have increased, bringing significant gains. Largest drop was recorded by ART shares with -33.69% and the highest growth of APS actions with +6.83% (all yields are nominal).

1996: Scholarship remains an anonymous institution in the Romanian financial market in 1996. Number of listed shares increased to 17. Among the new entrants in this year's actions

include AZO - one of the most solid and currently shares listed on the exchange, and IMP - one of the actions that will bring one of the biggest gains in years to come. Even the first year IMP entering into force, bringing a gain of 106.37% and ended the year with a price which represents almost three times the face value. From this perspective IMP is unusual for a company stock, provided that all other shares listed ends year with prices below face value, except for IMP and CON (+0.83% gain), all other action ends the year with declines heavy price - 12 of 17 listed shares fell more than 40%. SAN holds the record with the maximum decrease unwanted - 86.22%. Any dividends distributed by the issuers are not significant decreases in these declines. AZO and CRB are shares that record more than 10% share in the total capitalization of the exchange (39.38% and 24.19%), which marks the lowest year in the history of scholarship.

1997: In 1997 the scholarship comes from the crowd and sign a major qualitative leap. The move to a normal trading program five days a week, and the number of issuers and securities companies grow faster, during the year are traded shares of 75 companies listed. Among the newcomers this year include big names such as Terapia Cluj-Napoca, Bucharest Policolor, Oltchim R.-Valcea, Antibiotics Iasi, Arctic Gaesti, Electroaparataj Bucharest, Alro Slatina, Compa Sibiu, Transylvania Bank, Otelinox Targoviste and Automobile Dacia Pitesti. These elements together with a number of positive expectations regarding the evolution of Romania after the 1996 elections led to increasing interest in stocks listed on BSE. Some foreign investors are investing heavily on Romanian capital market in early and register the shares of most spectacular courses. It is a time when a lot of money is earned from investments in shares. In the next period, however, lost a lot of money. The economic results were not confirmed and financial performance expectations of investors, many of them fall faster. Even with these declines, some stocks managed to stay at the end of the quotes higher than those recorded in early 1997. The greatest profit is made by ARM shares which end the year with 755%. GOLDEN, TER, CLP, AZO and SMS also make impressive gains this year, with returns of 591% 436% 387% 322% and 237%. In total 44 of the 75 stocks ends the year with positive returns, but of these only 9 are above the inflation rate. 31 shares without loss of investors in 1997, and of these 19 had decreases exceeding 40%. Softer has registered the highest negative variation, of -80.63%.

This year is the first sign of split operations of some of the actions listed, to be considered for calculating return on BSE correctly. 20 shareholders of the companies listed are entitled to dividends, but they are generally of low value and most of the issuers to pay late. Three actions register a higher share of 10% to total capitalization of the exchange: Oltchim, Alro and therapy, with 18.99%, 10.21% and 10.07%.

1998: Frenzy in the capital market was still less of crashes. Number of issuers listed and the securities companies increased further. Thus, the number of companies whose shares are traded in 1998 reached 125. Among the issuers listed in this year include refinery companies such as Astra Romanian interesting, Sicomed Bucharest, Electroputere Craiova, Bucharest Turbomecanica, Excellent Bucharest, Agricultural Bank, Imsat Bucharest, Oil Terminal Constanta, Company Rulmentul Brasov and Hotel Intercontinental. Although investors have more shares available, market prices in serious decline throughout the year, and interest in stock and it falls.

Actions that bring the biggest gains this year are CPL, SNO, CER and ALM, with 471% 215% 198% and 183%. In total only 32 shares of 125 without earning investors, and of these only 22 are above the inflation rate. But declines are disastrous: 90 shares decline, and of these 55 are down over 40%. Largest drop is registered shares Euro finances, with 89%. Shareholders in 61 of the 125 traded companies are entitled to dividends in 1998, but their influence on investors' yields remains very low. Alro is the only company with a higher share of 10% to total capitalization (15.19%).

1999: General trend of decline continued into 1999 and market ruled depression. Number of securities companies was decreasing. Number of issuers traded in this year (138) is however

higher than the previous year. Collection BSE this year is enriched with shares of the five financial investment companies and other interesting companies and Agras, Petrolexportimport and Turkish-Romanian Bank (the latter non-confirmed investor expectations, unfortunately). Year 1999 is slightly better than the previous one. 67 shares end the year with positive returns (including 32 with earnings above the inflation rate). The largest gains are made by the PTT, MCN, ARC, CAS, BRM and INX, with 426% 349% 257% 226% 223% and 213%. 71 shares but ends the year with negative returns, but of these only 23 fall by more than 40%. Like the previous year record drop is owned by financial company (Albina Bank with -86.58%), illustrating the agitation through which the entire financial market in these years.

In 1999 begins fever increases its capital funds - 13 companies give bonus shares to shareholders. Among these, major companies such as therapy, or Electroaparataj, Arctic Gaesti. Investors in shares of Banca Transilvania and the impact begin to realize that they make good profits every year. 48 stock dividends distributed, but they remain modest. Alro and Turkish-Romanian Bank shares is a higher share of 10% to total capitalization of the exchange this year (15.08% and 13.03%).

2000: In 2000 market drop stops, many actions begin to rise, and interest in investments in stock returns. For the first time the number of issuers trade with (125) is lower than in the previous year. Stock Exchange begins to apply more stringent criteria in listing, so this year only two issuers come to share in November - ABROM Barlad and Rolast Pitesti.

Of the 125 traded companies, a total of 83 ends the year with positive returns for investors, moreover, of which 56 make real gains over the inflation rate. 29 shares without nominal gains exceeding, 100%, the stars of this year as GRX, NVL, NTS, MPF and TMR, with 1174% 1117% 667% 479% and 300%.

Only 38 shares lower this year, and the amplitude of this decrease is reduced. The largest decrease is recorded for Food Cluj-Napoca, with -63.64%. Six issuers give bonus shares and 51 distributed dividends. For the first time the dividends begin to be consistent for some issuers and the influence of dividends on total efficiency of the exchange exceeds 10%. This year Alro and Dacia are issuers with a capitalization of more than 10% of the total (23.12% and 12.70%).

This year free actions significantly influence the yield earned by investors. Stock price change from January to December Alro is -82%, but taking into account dividends and split operations and the issue of bonus shares in 2000 conducted return for investors Alro reach +124.19%.

2001: Increasing tendency begun in 2000 continues this year. More importantly, the stock registered of the second major qualitative leap in its history. Among the measures adopted this year include a large number of issuers delisting unattractive to investors, increasing transparency imposed on issuers, bond trading commences and the listing of companies with major impact on the Romanian economy - Romanian Bank for Development and SNP Petrom (in this Mail's year lists and actions after an initial public offering conducted in the open society).

These elements together with the stock market performances in the previous year attract more and more investors and increase prices further. Of 110 issuers traded in this year no less than 94 without a positive return (including 76 above the inflation rate) - the increase is generalized. Of this number 94, 47 issuers without earning (nominal) over 100% - and growth is accelerated. The stars are ECT market, UZT, CMF, CBC and ENP with 11,167% 894% 857% 491% and 491%, they are added another 11 issuers with yields between 300% and 400% . Growth Electrocontact Botosani, due to extremely low liquidity correlated with a program of action, wheat, is unusual in statistical terms and is not considered in calculations for 2001 below (this increase could not be speculated significantly due to extremely low liquidity of the shares).

Many of these gains are significantly affected by the operations of capital from its own funds - a total of 20 issuers distribute bonus shares this year. 49 issuers distribute dividends and gains made by them are large enough this year that make them attentive investors to take into account.

Only 11 shares without loss of investors. Of these, the SNP holds the record down - 43.14%. With a share of 36% in total market capitalization and trading for a period of four months only in 2001, SNP illustrates very well the need to adjust the average market return in the sense of limiting the maximum proportion of shares and the adjustment for the number of months of trading for each action separately. Petrom and the Romanian Development Bank shares are shares of over 10% in market capitalization (35.78% and 18.21%).

2002: The measures taken in the previous year of the new leadership of scholarship and performance in 2000-2001 are paying off; in 2002 the best year marks the BSE in its history. After tightening regulations, the number drops to 66 traded with issuers and the number of securities companies to 75.

These measures have a positive influence, leading to increased confidence in investment in shares listed on BSE. Increases and the number of municipal bond issue listed on the stock market, but transactions remain sporadic. Although the capital market legal framework is modernized, scholarship does not report significant events this year, and the danger of stagnation begins to threaten the gains expected by investors. No new scholarships Chapter issuers do not sit too well, the only "acquisition" in 2002 and Eforie Constanta.

But investors do not have time to notice these shortcomings, because they are busy calculating their gains recorded. Issuers in 75 trades, 56 make positive returns in 2002 (of which 52 are above the inflation rate). Of the 56, a total 20 rated issuers without earning over 100% growth records belonging ARS, SNP, EXC, IMP and SOF with 219% 212% 208% 207%, respectively + 204%. Only 6 issuer provides a negative return, the biggest drop being registered shares Energopetrol Campina (-81.33%), following passage of a reference data for an increase in own funds.

10 issuers distribute bonus shares and 31 distribute dividends, but this year their influence operations on market efficiency is low (many of the shares with a history of consistent dividends were lost and large companies planned to increase its capital by the revaluation differences assets have already done so). SNP and BRD remain and this year only shares with a share exceeding 10% in market capitalization, with 50.04% and 19.07%. In total the two actions share a register of over two thirds of total market capitalization.

Investment Context

In developed countries the stock exchange represents the barometer of the economy- it is more sensitive and faster than any other instrument and analysis. In Romania Bucharest Stock Exchange tends to have the same status although our country is far behind European countries and even Eastern Europe in terms of capitalization as absolute value and as a percentage of GDP but also in terms of number and structure of listed companies.

The Romanian trend in stock exchange market has been given many opportunities to foreign investors. Like any emerging market that has attracted investors in periods of growth due to potential investment multiplier much faster than mature markets but at the same time periods more troubling withdrawals of foreign capital were much faster and more significant value than would have been a mature market. We can say from this point of view sensitivity in BSE positive and negative signals from the market were much higher than in developed markets. Foreign investments in Romanian scholarship were and are no doubt a necessity considering the financial strength of some investors, incomparable with the Romanian investors, natural or legal persons. Under the circumstances it was imperative to attract them in any way.

The main factors to attract investors on stock market are economic (growth, stability and economic environment of tax legislation, the number and quality companies listed on stock, capitalization) and political (stability of the political environment, Romania's accession to various international organizations such as NATO and the European Union).

Economic issues affecting the foreign investment at BSE

However with political and legal inconsistencies, the Romanian economic environment has evolved. Our country's economic growth has been significant and, moreover, the Romanian

economy in 2004 was categorized by the European Commission as a functioning market economy. Basically, there was a decrease inflation which reached a single-digit levels in 2005 - the first time after 1989 - the completion of major privatizations have brought some of these same companies and capital market (BRD, Petrom, Erste Bank) - the impact on market capitalization - only the listing of Erste Bank increased by 75% to existing capitalization at the time.

Other positive signs confirming direction in which the Romanian economy went were notes given by major ratings agencies: in 2004 to obtain from Fitch ratings to BBB-long term loans, Moody's upgrades rating to Ba1 and country in 2005 Standard & Poor's upgraded credit rating from stable to positive.

Tax returns with positive effects were uniform profit tax rate to 16% for both companies (reduction from 25%) and individuals (eliminating progressive tax system with margins between 18 and 40%).

Policy issues affecting the foreign investment at BSE. Two political events have marked these essential foreign investors on the Bucharest Stock Exchange: accession to NATO and the European Union. The first is a guarantor of security, the second a guarantor of a stable economic environment and subject to stricter regulations. Both mean a word associated with "a lower risk investments" in our country.

Clearly, to membership in the North Atlantic and the European, Romania was considered a country with high political risk and put on the same landing in third world countries and other countries in the areas "hot" in terms of politically like some countries in South America. And that though political turmoil in Romania never had magnitude like African and South American countries.

If we analyze the structure of foreign investors in terms of industries that have invested in 58% of cases money destination was the financial and insurance sector, 15% in production and only 3.4% in construction. Was also normal for investors to focus on these areas, given that the largest companies listed on the BSE are in these categories: SIFs, the 4 banks (BRD, Erste, Carpathians and Transylvania) - the financial sector, Petrom, Rompetrol Refining - Production, Impact - Construction, etc. Romanian crisis journal at the beginning of 2009 shows as the following:

- The new installed government has already managed to regulate the false electoral promises through a adjustment series and pension enlargement delay, allowance, salaries, prohibit state overlapping of pensions and salaries, capping of certain categories of budgetary revenues, wage restriction of certain category of budgetary. In internal plan, considering those regulations its political credibility is decreasing and it risks bringing hunger marches and sticks in the country. In external plan, the actual government must prove that is able to control consumes, the budget deficit, the rebellion of various social categories and it can orient the budgetary expenses through investments.
- Some of the largest multinational companies present on the local market (Arcelor Mittal, Oltchim, Automobile Dacia, Azomures, etc) started the close temporary their gates (without knowing what means this from a temporary point of view) and they sens a lot of employees in technical unemployment, and some of them started to negotiate the anticipate dismiss or retirement.
- The Euro rate had dramatically increased due to the first trading session from January 5 and despite the fact that it exceeded 4.2 Ron/Euro which represent the psychological threshold and BNR does not give any sign of support of the local currency.
- BNR shows no sign that the local market would like to resume loans at physical and legal personae. In the first politically monetary session from 6th January, BNR does not reduce the rate or reserve requirements in national currency- it remained unchanged at 18% since November 2008. Interest rate – which was 10.25% since August 2008 - was decreased with 0.25% only in monetary policy meeting of February 3. A breath of oxygen might be

the only new bank credit market real estate and mortgage credit standards that came into force at the end of January. Although they do not replace the lack of liquidity in the market. Moreover, two of the major banks in that market Erste Bank (BCR) and Raiffeisen Bank have negotiated with the Austrian state aid for strengthening capitalization. BNR refused to involve steps such banks and their capitalization Romanian state. Therefore the banking system is not ready to support him out of the crisis by re-lending.

- The gas crisis has affected Russian and Romania along with the rest of Europe has intensive companies such as Azomures Tîrgu-Mureş, initial production may not resume temporarily interrupted by the crisis.

For 2009 estimates Romania's economic growth is between 1% (EBRD) and 2-2, 3% (NBR) - the budget was built on an estimated growth of 2.5%.

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APPLYING R. BLAKE'S AND J. MOUTON MANAGERIAL GRID ON A REAL ESTATE COMPANY

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Abstract: *As it is known, in time, researchers have developed four major behavioural theories of leadership: the trait theory, behavioural theory of leadership, situational leadership theory and integrative leadership theory. These theories focus on the work of leaders, what they do, what they say and what they communicate across organizational boundaries. Over time, these theories have been developed and improved. Over time, all researchers in the field were those who tried to find and identify the best style of leadership, regardless of the situation they might encounter in the course of their activities. Among those who have done so we can highlight the Robert Blake and Jane Mouton, who built the managerial grid. In this paper, after presenting the explanations related to the theoretical aspects R. Blake's and J. Mouton's management grid a concrete example of this grid with application in an institution will be presented. The study pursued the managerial grid application and analysis on a real estate manager, who, after a test aimed at answering the 20 questions required, his style of manager could be determined.*

Keywords: management, leadership, theories, behaviour

JEL (Journal of Economic Literature) Classification: M1 M10

1. INTRODUCTION

Leadership targets the training and coordination management functions and emphasizes behavioural problems. If the manager's primary concern is that the tasks are performed, the leader focuses his attention on people fulfilling these tasks (Blake, Mouton, 1978).

Leadership may mean different things to different people, but in a business, leadership must always start with the owner, who has to define exactly what leadership means to him or her, and then decide what success means to the business. However, being a leader also means articulating that vision to everyone also in the company, convincing them of its importance, and encouraging and motivating them to work together to achieve it. And, while doing so may come more naturally to some than to others, it's never easy.

Among their research, scientists have tried to find the best style of leadership regardless of the circumstances in which or which they face. At the same time, they sought to identify differences between effective leaders and ineffective leaders. Behavioural theories of leadership have made significant contributions in the study of leadership as a result, the study of this issue continues to be the focus of research in contemporary world, observing also the complexity and the effects it has on organizational performance and the employees.

In terms of leadership behaviour, research shows that it is based on its features and abilities. Both leadership traits and behaviour complement each other and can not miss one without the other. In other words, traits leadership theory influences behaviour leadership theory (Nica, Iftimescu, 2004, pp. 320-321).

2. THE FOUR THEORIES OF LEADERSHIP

Leadership Theories provides us with a number of concepts on perception, interpretation and understanding it. All these theories have practical value because they are used to better understand and observe successful leaders. All these theories of leadership have evolved over time, over the last 60 years (Țuțurea, Miricescu, Moraru, Grecu, 2010, pp. 13-14). The following lines will present the characteristics of four different theories of leadership.

2.1. Traits theory

Studies on this theory were held between the 30s – 40s, when distinctive features to be considered for effective leadership were identified, such as the appearance of high energy, confidence, influence. This theory identifies the set of characteristics or traits that differentiate the leaders from supporters of the inefficient leaders from effective leaders. However, no one has so far managed to establish a universal list of traits that successful leaders possess.

2.2. Behavioural leadership theory

Studies on this theory were made in the '50s. The theory focuses on how the leader behaves in the workplace. Researchers have tried to identify differences between the behaviour of effective leaders from ineffective ones. The 10 managerial roles of Henry Mintzberg are an illustration of behavioural leadership. Robert Blake and Jane Mouton make the Managerial Grid that identifies two leader behaviours: the task-oriented leader and people-oriented leader.

2.3. Situational leadership theory

This theory has been studied since the 60s. Research has led to the conclusion that there is no best leadership style in all situations/circumstances. Theory attempts to exemplify the most appropriate style of leadership based on three components: **leader, supporter, situations**. Theory sets great emphasis on situational factors that include: **the nature of work performed, supporters' characteristics, external environment**.

2.4. Integrative leadership theory

This theory emerged after the mid '70s. It seeks to combine the three previous theories to explain the success of leaders and what affects the relationship between leaders and supporters.

3. BEHAVIOURAL THEORY BASED ON THE LEADERSHIP GRID

Research from University of Michigan and Ohio in the concept of behavioural leadership during the years 40s-50s of the last century were further developed by **Robert Blake and Jane Mouton**, who established the managerial grid, which they then published in 1964. Thus, in **Figure 1** the leadership styles of the managerial grid mentioned are presented and they will be explained under the appropriate grading scale figures (**9.1, 1.9, 1.1, 5.5, 9.9**) for each type of leader **Figure 2**.

9.1 Strong concern over poor results and concern for people. The problem is the integration – concern for the results should not have the effect of neglecting the people who need to obtain these results.

1.9 Strong concern for people and low concern for results. Imbalance in the opposite direction, as much attention is paid to people at the expense of the production deployment.

1.1 Sign of a passive or apathetic leadership (indolent), this style is characterized by a low concern for both people and production. He makes the minimum of what is required to remain employed.

5.5 It is the most common leadership style in Europe and America, representing a compromise approach in which a portion of each dimension is sacrificed to preserve the *status quo*. It has a medium intensity concern for both people and production

9.9 The ideal style with the highest efficiency. The leader tries, by encouraging the whole team's effort to solve the problems of both dimensions simultaneously. Each team member is concerned with both dimensions, not just the leader.

The managerial grid measures the manager's concern for two essential elements - the results of work and the concern for the people who work. The two items are ranked on a scale from one to nine and may be presented graphically on a two-dimensional grid (see **Figure 2**, Țuțurea, Miricescu, Moraru, Grecu, 2010, p. 50). The problem that arises in leadership is how to integrate the concern for results/production with the concern for people. Blake and Mouton

identified several leadership styles, more precisely 5, thus achieving 81 possibilities.

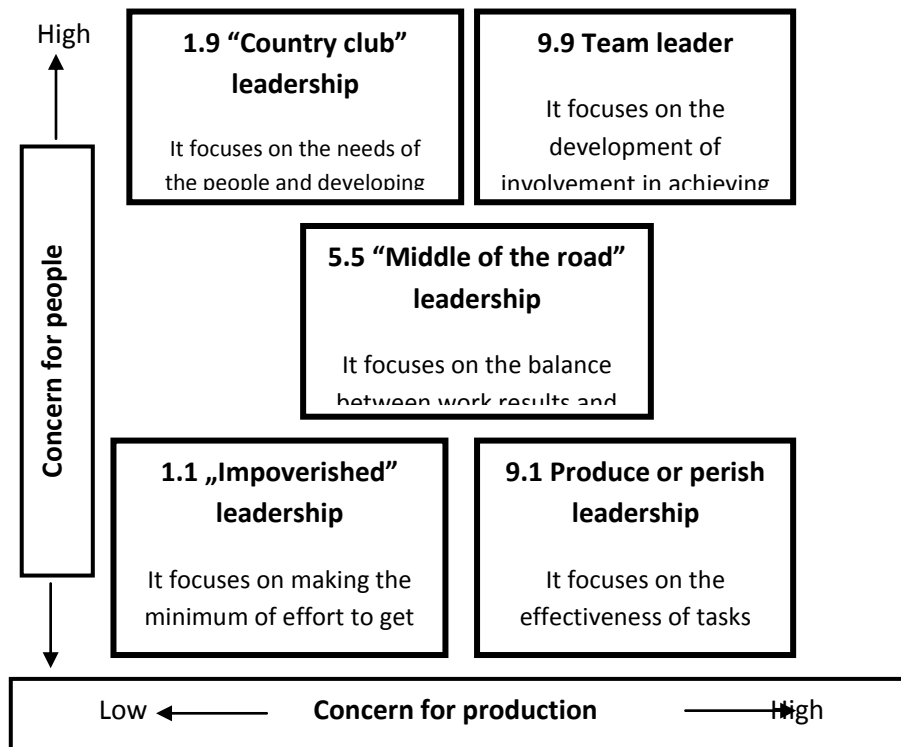


Figure 1: Types of leadership in R.Blake and J. Mouton’s Managerial Grid

Source: *Șoim Horațiu, Curs leadership, p. 16*

We shall further show a concrete example of the application of R. Blake and J. Mouton’s managerial grid. Therefore, the study pursued the implementation and analysis of the managerial grid on a manager chosen at random, operating within a real estate agency. Following a test comprising 20 questions required (shown below as the Test. Identify your leadership style - (Țuțurea, Miricescu, Moraru, Grecu, 2010) there will be identified the style/type of manager which the subject chosen for analysis falls in. This test is taken from a specialty book, its interpretation, however, is an original analysis of the author of this work.

Thus, in Table 1, the answers given by respondents for each question are shown. The higher the score for task-focused leadership is, the greater the tendency to concentrate on getting a job well done is. The higher the score for leadership focused on people is, the stronger the focus on people's needs and developing relationships to support them is.

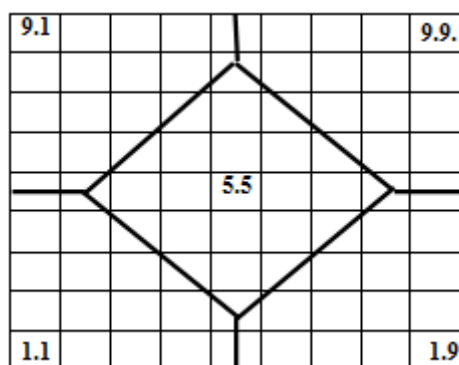


Figure 2: Leadership grid according to R.Blake and J. Mouton

Source: Țuțurea, Miricescu, Moraru, Grecu, (2010), Leadership în organizații, Editura Universității “Lucian Blaga” din Sibiu, p. 5

Table 1: The respondent’s answers to the questions in the assessment test

1. 1	6. 0	11. 1	16. 1
2. 1	7. 0	12. 0	17. 1
3. 0	8. 0	13. 0	18. 1
4. 0	9. 0	14. 0	19. 0
5. 0	10. 1	15. 0	20. 0

Test. Identify your leadership style

As a manager (real or hypothetical) of an institution fill in the statements below by choosing the number 0 if the statement is "I would tend to do it", or number 1 if the statement is "I would not tend to do it". Because there is no right or wrong answers, Be honest and select the correct answer.

- _ 1. I would leave or not to know by my employees to do things during office hours other than those listed in the job description.
- _ 2. I would spend time with my employees or get to know them personally during office hours.
- _ 3. I would have or not a clearly written agenda of activities at the meetings with the work unit.
- _ 4. I would allow or not employees to come late or leave early from work to solve personal problems.
- _ 5. I would determine or not a clear set of objectives so that employees know what to do.
- _ 6. I would like to get involved or not in the conflicts between employees to help solve their issues.
- _ 7. I would spend or not more of my time in directing employees to make sure that they meet the objectives of the department.
- _ 8. I would encourage or not employees to solve problems related to their work, without having to get my permission for that.
- _ 9. I would certainly ensure or not that employees are doing their job in accordance with standard methods to be sure that the work is properly done.
- _ 10. I would seek to receive or not advice from my employees when making a decision.
- _ 11. I would record or not, well and regularly, productivity of the department and let employees know how they performed.
- _ 12. I would try or not to develop trust between me and my staff and each other.
- _ 13. I would quickly take or not corrective action for those employees who do not fall in standards and objectives.
- _ 14. I would thank or not personally employees for their work in accordance with the objectives and standards.
- _ 15. I would continue or not to set standards and higher goals for my employees.

- _ 16. I would be open or not with employees to discuss personal matters during working hours.
- _ 17. I would schedule or not the work tasks and time for my employees in a perfect manner.
- _ 18. I would encourage or not my employees to cooperate with each other rather than compete.
- _ 19. I would focus or not continuously trying to improve the productivity of my department with a range of activities, such as reducing costs.
- _ 20. I would defend or not good employees, if the manager or other person criticizes their work than to agree or say nothing.

Add up the number of "I would tend to do it" responses for all even items and place them on the scale below.

Task-based leadership high	9 8 7 6 5 4 3 2 1	Task-based leadership low
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Add up the number of "I would not tend to do it" responses for all even items and place them on the scale below.

Leadership style with high concerns for the people	9 8 7 6 5 4 3 2 1	Leadership style with low concerns for the people
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In **Figure 3**, we can notice the number of responses given by the respondent and their percentage. Therefore, 13 responses given by the respondent referred to the response "*I would tend to do it*" (answer marked with number 0) and it represents 65% of total responses. The other seven cases encountered by the respondent are assigned to the answer "*I would not tend to do it*" (answer marked with number 1) and it represents 35%.

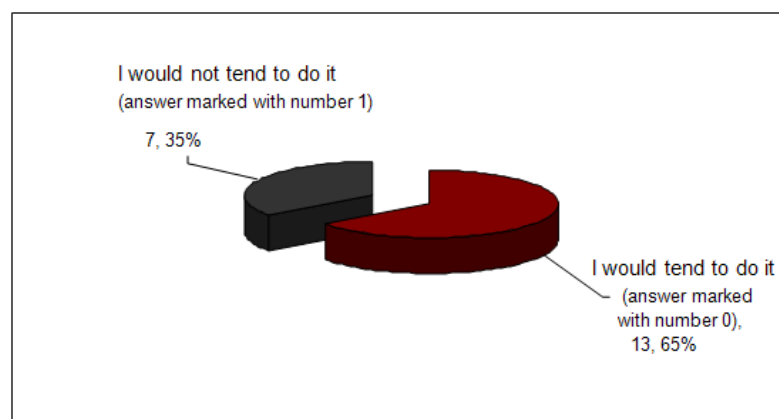


Figure 3: Percentage of responses given by the respondent to the questions in the assessment test

Therefore, looking at **Figure 4**, it can be said that the respondent manager is approaching the value 5.5 (middle of the road), which means that he is the most common leadership style in Europe and America, representing a compromise approach in which a portion of each dimension is sacrificed to preserve the *status quo*. It has a medium intensity concern for both people and production. High labor turnover is inevitable. He has a say in the organization. In this case, the leader does not push the boundaries of achievement resulting in average performance for organization. This kind of leadership is just one of the 81 possible situations, analyzing the leadership type according to R. Blake and J. Mouton's Managerial Grid.

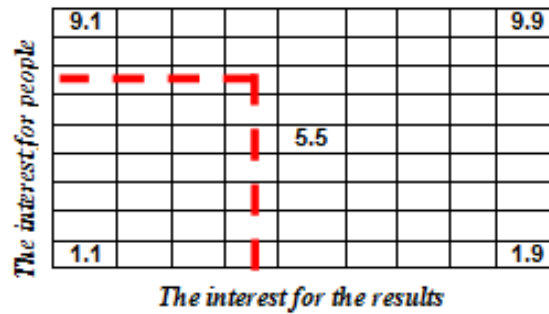


Figure 4: R. Blake and J. Mouton Managerial Grid applied to the respondent

4. CONCLUSIONS

In conclusion, leadership is not achieved easily. It requires a lot of patience and special characteristics. Therefore, the most important traits are competence, consistency, and character.

Leaders of the future will need to be adept conceptual and strategic thinkers, have deep integrity and intellectual openness, find new ways to create loyalty, lead increasingly diverse and independent teams over which they may not always have direct authority, and relinquish their own power in favour of collaborative approaches inside and outside the organization.

Some leadership qualities depend on the context. That is, different industries and disciplines value different types of leadership.

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FINANCIAL STATEMENT ANALYSIS: INDEBTEDNESS ANALYSIS

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Abstract: *The financial position is measured by the economic resources that the company controls, the financial structure that supports these resources, liquidity and solvency, flexibility and the ability to adapt to environmental changes. The analysis of financial position elements, in close correlation with financial performance, indicates the company's ability to secure and maintain a strong, financially balanced position.*

Keywords: *Indebtedness analysis, Repayment capacity, Self-financing capacity*

JEL (Journal of Economic Literature) Classification: *G23, G32*

1. INTRODUCTION

The analysis of the volume and structure of economic resources controlled by the enterprise, its past ability to modify the performance of those resources is the starting point in assessing the company's future ability to provide cash and cash equivalents. The way in which cash-flows will be distributed among those who have different interests to the company, future needs and prospects lending, i.e. the conditions that will receive those credits are assessed by analyzing the company's financial position.

2. INDEBTEDNESS ANALYSIS

The economic entity's financial autonomy (independence) to third parties can be assessed by the Debt Ratio (**Dr**), which indicates the proportion of total debt to total capital, showing the extent to which sources attracted and borrowed participate in the financing of the activity. It is recommended that the indicator does not exceed 66%, a value of 50% is considered, however, safer (Balteş, 2010; Lorant, 2001).

$$Dr = \frac{\text{Total debt}}{\text{Total liabilities}} \times 100$$

In dynamics, the indicator should be permanently reduced, due to the change in debt s which is more slowly than changes of the liabilities, the most favourable situation being due to medium and long term debt repayment, cash or credit reduction, yielding place to equity. In its turn, the indicator can detail the following options (Balteş, 2010):

2.1. Financial leverage (FL),

Financial leverage used in diagnosing the financial risk, representing the share of debt to equity (the recommended value of the indicator is maximum 60%).

$$FL = \frac{\text{Total debt}}{\text{Equity}} \times 100$$

2.2. Financial autonomy ratio (FAR)

Financial Autonomy Ratio, an indicator used to assess the entity's financial dependence to third parties, shows the financing report between own resources and foreign. It is

recommended that the value of equity is higher than debt, or that it is over-unit. Minimum allowable value is 50%.

$$FAR = \frac{Equity}{Total\ debt} \times 100$$

Regarding the Financial Autonomy Ratio, detailing can be done in the following directions(Lorant, 2001):

1) **Overall Financial Autonomy Ratio (Ofar)**, shows how much of the company's assets is financed from the own resources

2)

$$Ofar = \frac{Equity}{Total\ assets}$$

The minimum permissible ratio is 33% , below this threshold being a disadvantage in terms of risk of insolvency. Since it is considered that the own sources should contribute to financing in a proportion of 50 % , between these values the company can borrow, but must benefit from the leverage of debt's effect.

When equity represents at least 66% of total resources, the company has a high financial autonomy, being easier for it to access medium or long term loans.

Growth of the ratio is also increased overall financial autonomy, due to changes in equity at a rate higher than the total resources, and conversely, decrease of the ratio represents diminishing the global financial autonomy.

It is recommended that the increase be due to increasing financial autonomy in a faster pace of net income for the year, compared to other equity items.

Reducing the ratio is normal when it is due to a faster growth of operational debts, if it is due to easing payment terms, i.e. medium and long term bank credit growth, if the company benefits from leverage.

2)**Term Financial Autonomy (Tfa)** reflects the proportion in which equity participates in forming permanent capital:

$$Tfa = \frac{Equity}{Permanent\ capital}$$

The minimum allowable value for this indicator is 50 % limit under which the company is in an unfavourable situation in terms of insolvency risk.

In dynamics, the ratio must provide a permanent growth tendency, a favorable situation when it is due to increased equity and debt reduction over the medium to long term. Reducing the ratio is normal during periods when medium and long term loans are contracted, provided that the company benefits from leverage (Lorant, 2001).

2.3. Repayment capacity (RC)

Repayment capacity, representing part of the total debt of the entity that can be paid from the self-financing capacity. It is recommended that a minimum percentage of 25-30% of the total debt is supported by the self-financing capacity (Balteş , 2010).

$$Rc = \frac{Self - financing\ capacity}{Total\ debt} \times 100$$

3. CASE STUDY ON THE INDEBTEDNESS ANALYSIS

For the analysis of indebtedness, we analyze the financial statements of SC M SRL, a company acting in service domain for IT components. The indebtedness was established as a ratio between total debt and total assets.

The values recorded for the Debt Ratio, shown in Table 1, do not exceed the threshold of 66%, but also do not reach the value of 50% which is considered, however, safer, being below that level by 8 percentage points in 2010, 9 percentage points in 2011 and 15 percentage points in 2012. The decline comes amid the stronger decrease of debt compared to total liabilities. The evolution of the indicator is shown in Figure 1.

Table 1: The analysis of the Debt Ratio, between 2010-2012

Indicators	Financial year		
	2010	2011	2012
Total debts	51.160	42.616	34.535
Total liabilities	121.549	105.088	99.807
Debt Ratio Dr	42%	41%	35%

Source: author's own calculations

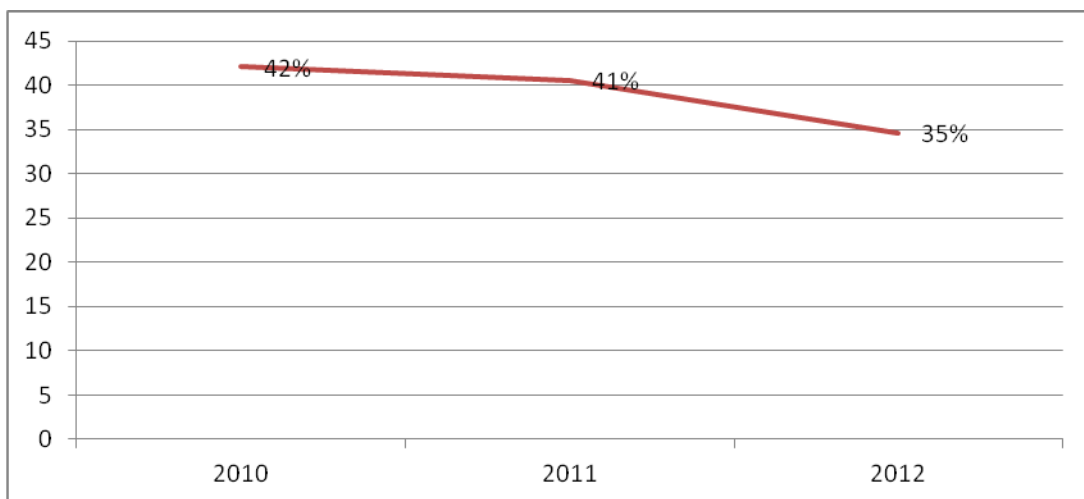


Figure 1: Evolution of Debt Ratio, between 2010-2012

Source: author's own representation

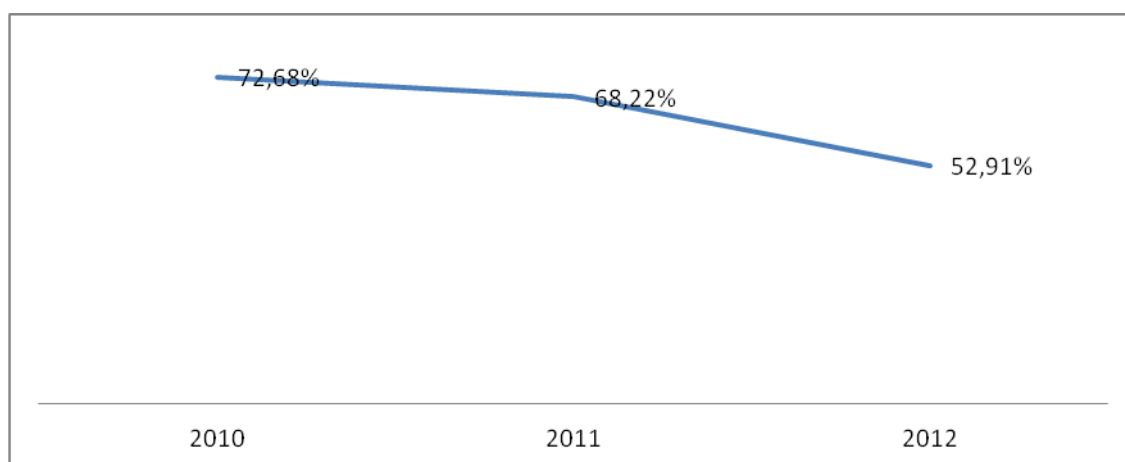
In its turn, the indicator can be detailed as follows:

a) **Financial leverage (Fl)**, used in diagnosing financial risk indicates a proportion of debt to equity of over 60%, as recommended, in 2010-2011, and decreasing below this threshold in 2012, when the value reached was only 52,91 %. In 2010-2011, both debts and equity decreased, but the decrease of debts, with 18% was more pronounced than that of equity, which decreased by 4%. These factors have generated the decrease of financial leverage by 10,46 percentage points, by 14,39 % respectively. Between 2011-2012 debt decreased by 18%, against the background of an increase of 5% of equity generated sharp decrease, by 15,31 percentage points, with 22,43%. Financial leverage values are presented in Table 2 and their evolution in Figure 2.

Table 2: Financial Leverage, during 2010-2012

Indicators	Financial year		
	2010	2011	2012
Total debt	51.160	42.616	34.535
Equity	70.389	62.472	65.272
Financial Leverage	72,68%	68,22%	52,91%

Source: *author's own calculations*

**Figure 2: Financial Leverage evolution, between 2010-2012**

Source: *author's own representation*

b) **Financial autonomy ratio (Far)**, indicates an increase of the company's financial independence throughout the analyzed period, due to lower total debt, at the expense of reducing current debts, the medium and long term debts being absent. For the entire period, the ratio of funding between own and foreign resources was greater than one, with a value well above the minimum permissible limit of 50%, as it can be seen in Table 3. Therefore, we conclude that the company has high financial autonomy.

Table 3: Financial Autonomy Ratio, between 2010-2012

Indicators	Financial year		
	2010	2011	2012
Total debt	51.160	42.616	34.535
Total liabilities	70.389	62.472	65.272
Financial autonomy ratio	137,59%	146,59%	189,00%

Source: *author's own calculations*

Detailing the Financial autonomy ratio by considering the overall financial autonomy ratio and the time financial autonomy, whose values are shown in Table 4, we notice the following:

Table 4: Overall financial autonomy ratio and Term financial autonomy, between 2010-2012

Indicators	Financial year		
	2010	2011	2012
Total debt	51.160	42.616	34.535
Permanent capital	70.389	62.472	65.272
Total liabilities	121.549	105.088	99.807
Equity	70.389	62.472	65.272
Overall financial autonomy ratio	57,91%	59,45%	65,40%
Term financial autonomy	100%	100%	100%

Source: author's own calculations

B1) Overall financial autonomy ratio Ofar, is increasing, indicating an increase in the share of the company's assets financed from the own resources. For the entire period analyzed values are above the minimum allowable threshold of 33%, own resources contributing to finance in a higher proportion than 50% in each period.

B2) Term financial autonomy (Tfa) has a value of 100%, permanent capital being established solely on equity.

c) **Repayment capacity (Rc)**

In the analyzed period, repayment capacity has the highest fluctuations of all analyzed indicators: in 2011, repayment capacity decreases by 65,39 % compared to 2010 and then in 2012, it increased by 201,33 % as compared to 2011; repayment capacity values recorded for 2010-2011 and 2012 are shown in Table 5

Table 5: Self-financing capacity and Repayment capacity, between 2010-2012

Indicators	Financial year		
	2010	2011	2012
Total debt	51.160	42.616	34.535
Self-financing capacity	44.844	12.927	31.567
Repayment Capacity	87,65%	30,33%	91,41%

Source: author's own calculations

Since total debts are declining throughout the entire analyzed period, the evolution of the repayment capacity is given in particular by the evolution of the Self-financing capacity, as it can be seen in Figures 3 and 4, the two indicators having a similar development model: strong decrease during 2010-2011 and strong growth during 2011-2012.

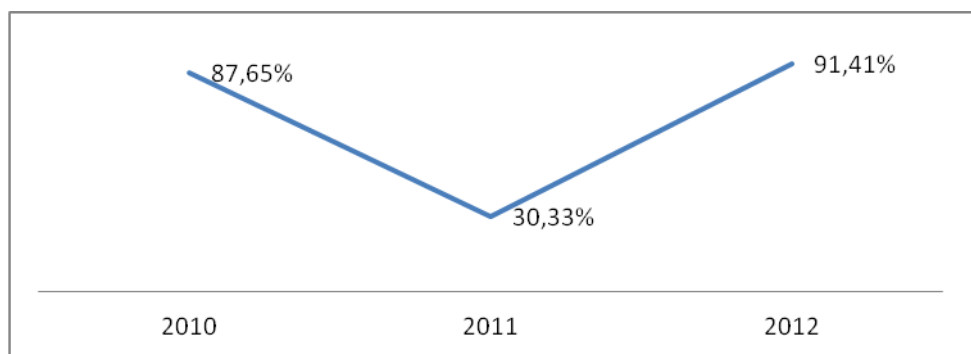


Figure 3: Repayment capacity evolution, between 2010-2012

Source: author's own representation

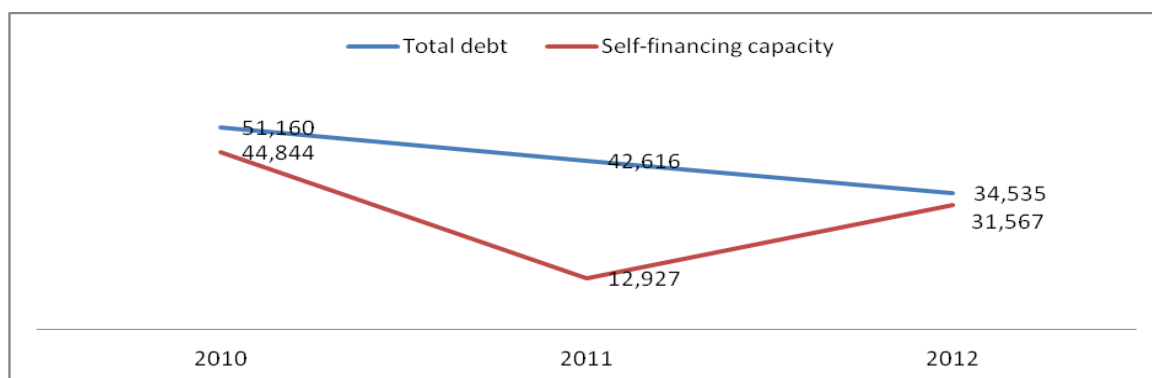


Figure 4: Self-Financing Capacity and Total Debt evolution, between 2010-2012

Source: author's own representation

Major fluctuations of self financing are attributable to its components changes, and particularly, to strong growth in staff costs, which led to the reduction of the gross operating surplus. A major influence also had doubling external services expenses for 2011, compared to 2010, the cumulative effect of these factors resulting in a decrease to 71% of self financing in 2011, compared to 2010. A synthetic image intermediate management balances that generated self financing development is provided by Figure 5, Self-financing capacity, calculated according “sustractiv” model being shown in Table 6

Table 6: Self-financing capacity components, between 2010-2012

Indicators	Financial year		
	2010	2011	2012
Income From Sale Of Goods	134.192	164.132	189.900
Cost Of Goods Sold	51.897	70.883	70.373
TRADE MARGIN	82.295	93.249	119.527
The Output Sold	19.377	20.938	18.620
PRODUCTION OF THE YEAR	19.377	20.938	18.620
Trade Margin	82.295	93.249	119.527
The Output Sold	19.377	20.938	18.620
Consumption From Third Parties – Overall, In Which:	32.896	56.180	62.162
– Expenses With Raw Materials And Supplies	8.387	19.828	27.744
– Other Material Expenses	9.068	3.428	9.564
– Other External Costs	637	916	1.375
Total Expenses On External Services	14.804	32.008	23.479
ADDED VALUE	68.776	58.007	75.985

Added Value	68.776	58.007	75.985
Expenditure Related To Taxes And Similar Payments	422	526	495
Expenditure Related To Staff	230	6.928	12.864
GROSS OPERATING SURPLUS	68.124	50.553	62.626
Gross Operating Surplus	68.124	50.553	62.626
Other Operating Income		1.422	
Other Operating Expenditure	15.740	33.362	24.702
Financial Income	66	47	-114
Financial Expenditures	12	29	
Income Tax	7.594	5.704	6.243
SELF-FINANCING CAPACITY	44.844	12.927	31.567

Source: *author's own calculations*

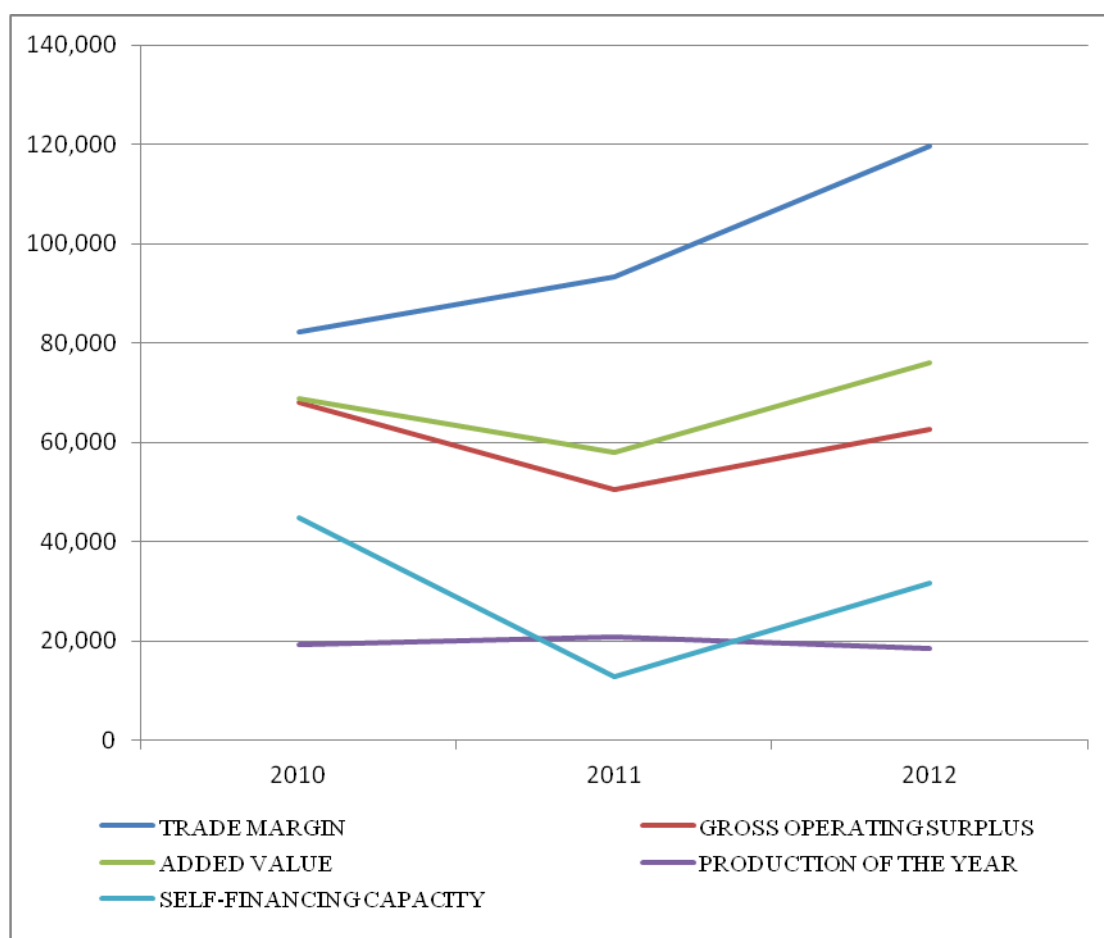


Figure 5: Evolution of Self-financing capacity components, between 2010-2012

Source: *author's own representation*

While having an oscillatory evolution, the part of total debt of the entity that can be covered from Self-financing capacity is maintained above the minimum recommended level of 25-30%, throughout the entire analyzed period. This means that the company has a good Repayment Capacity in 2011, and an excellent one in 2010 and 2012. Evolution is especially better, considering that besides the fact that a recovery was recorded compared to situations in 2011, the level reached in 2012 is higher than in 2010.

4. CONCLUSIONS

We appreciate the financial position of SC M SRL as a solid one, with good Self-Financing Capacity, out of danger of insolvency. For almost all analyzed indicators, a decrease between 2010-2011 can be noted, followed by a return during 2011-2012, indicating a good capacity of the company to cope during difficult periods. While 2012, most financial indicators showed values above the recommended threshold, the company should focus on strengthening and improving its performance.

Considering that during the entire under review period, most financial indicators had fluctuated, even if there were no alarming values, we recommend that the company should carefully monitor its financial position and performance, in order to correct in time any negative situations that may arise in the current economic and financial context.

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