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EVOLUTION OF PRAGUE STOCK EXCHANGE

PAVEL DUPŠIVA¹, MICHAL PRŮCKNER²

ABSTRACT. Prague Stock Exchange has been founded in 1992. The first trades took place on April 6, 1993 when 1 public bond, 3 other bonds, 2 allotment certificates and 1 share have been traded. In the 1990s coupon privatization has had the biggest impact on trading. Over 1500 new issues have been introduced but only a few of them have been able to attract the investors' interest. The establishment of Czech Securities Commission which played an important role in cleaning the capital market of illiquid issues has been a crucial factor. In the last few years the biggest impact has had the introduction of foreign issues on PSE.

The best-known indicator of PSE performance is the PX-50 index. More important for the investors is however the PX-D index as it follows the most liquid issues.

This paper is an original study based on PSE stock exchange.

Key words: Prague Stock Exchange, evolution, market capitalization, volume, P/E ratio

The first steps have been made at the beginning of May 1991 when Preparatory Committee for foundation of Prague Stock Exchange has been established.

This new company formed by 8 banks transformed into association in August of 1992 and later that year this association became Prague Stock Exchange trading company after the passage of Stock Exchange Act and has been registered in November of 1992.

The founders have been 12 Czech and Slovak banks and 5 securities traders. The first trades on Prague Stock Exchange took place on April 6, 1993 when 1 public bond, 3 other bonds, 2 allotment certificates and 1 share have been traded. The volume of realized trades has been tens of thousands CZK. When the first wave of coupon privatization has been completed 955 new issues have been introduced during 1993 which has brought significant growth of trade volumes. In 1995 674 issues from second wave of coupon privatization have been introduced. However during 1997 more than 1300 issues have been withdrawn from trading because of their very low or zero liquidity.

In August 2001 Czech Securities Commission allowed Prague Stock Exchange to start trading with selected derivative products (options on share index, futures on share index, futures on interest rate, futures on public bonds).

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Conditions of Prague Stock Exchange (PSE) membership

Trading on PSE is possible only through a PSE member. Conditions of membership are set by PSE rules. A PSE member can be a subject who has been allowed to trade with securities by a special Act, who fulfils all conditions set in PSE rules and has been granted the membership by PSE Chamber. Czech National Bank, Ministry of Finance and Czech Consolidation Agency are entitled to trade on PSE by law.

Each PSE member must have paid-up registered capital at least 10 mil. CZK, set capital adequacy and call money at least 5 mil. CZK. PSE member cannot be a subject who has been declared bankrupt or whose order for bankruptcy has been rejected because of insufficient property. Bank under sequestration can't be PSE member.

Each PSE member is allowed to buy or sell securities only if he/she is a member of PSE Guarantee Fund (GFB). Property of GFB has been established to cover the risks resulting from exchange trades.

Between 1993 and 1996 lots of subjects were interesting in becoming PSE member and the number of members has grown from 17 to 106. On the contrary, in last years the number of members is dropping mainly because of a very low profitability and the passage of Czech Securities Commission Act which requested the re-licensing of capital market subjects.

Table 1**Evolution of number of PSE members**

| Year | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Number | 62 | 71 | 101 | 106 | 88 | 66 | 54 | 52 | 35 | 32 | 28 | 24 |

source: www.pse.cz

PSE indices**PX-50**

The oldest and best-known index is the official PX-50³ established in April 1994. April 5, 1994 has been selected as the initial day and 1000 points as the initial value.

PX-50 is composed of maximally fifty shares traded on PSE. No companies that have declared bankruptcy upon can be included.

The index structure is updated twice a year on January 1 and July 1. These updates are mostly reactions to the decreasing number of issued shares or to the companies' mergers.

Since October 2, 2002 Erste Bank is the first foreign issue accepted at PSE and was included in PX-50 index portfolio.

³ PX = Prague stock eXchange

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Between 2002 and 2004 there has been a rapid decrease in number of companies included in the index portfolio. At the beginning of 2005 there have been only 14 companies. In the beginning of 2005 the biggest share on market capitalisation of index structure (approx. 20 %) had been cumulated by ČEZ, Český Telecom, Erste Bank and Komerční banka. The seven most liquid issues that are also included in the PX-D index represent approx. 90% share of PX-50. Currently the number of issues included in PX-50 portfolio is variable but their number cannot be higher than 50.

PX-D

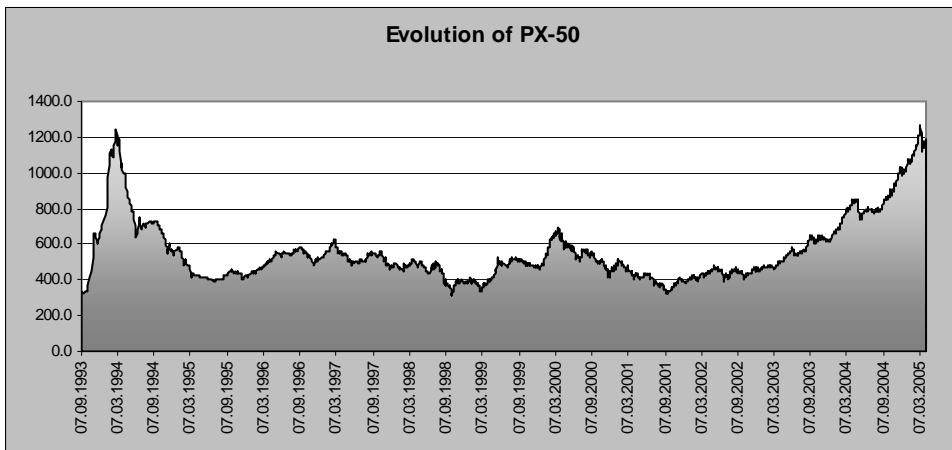
PX-D is a price index (doesn't take into account dividend yield) which can include only blue chips issues. The number of issues in its portfolio is also variable. The initial index value was 1000 points and the initial day was January 1, 1999. PX-D is closely watched by investment companies, insurance companies or foreign investors as it follows the most liquid issues.

PX-50 evolution during 1993-2005

As we mentioned above PSE has started computation of PX-50 on April 5, 1994 with the initial value of 1000 points. The index reached its minimal value (316 points) on October 8, 1998 and its maximal value on March 10, 2005 (1262,7 points⁴). PX-50 is currently formed by 16 issues and therefore there have been opinions that its portfolio is not the most representative benchmark of Czech share market. Among the most liquid issues are Komerční banka, ČEZ, Erste Bank, Český Telecom and Zentiva.

Graph 1 presents PX-50 evolution between September 1999 and March 2005.

Graph 1 – Evolution of PX-50



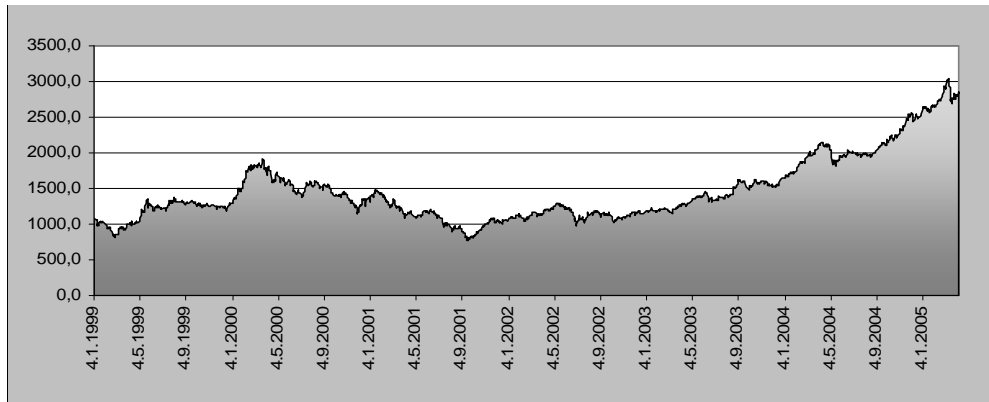
source: own

⁴ This value has been overcome again in September 2005

Evolution of PX-D in 1999-2005

Graph 2 is focused on PX-D index evolution. Index reached its minimum value on September 17, 2001 (770,4 points) and its maximum value on March 10, 2005 (3045,8 points⁵).

Graph 2 – Evolution of PX-D



source: own

Market capitalization

Market capitalization by securities

In table 2 and graph 3 are presented the market capitalizations of bonds, shares and allotment certificates.

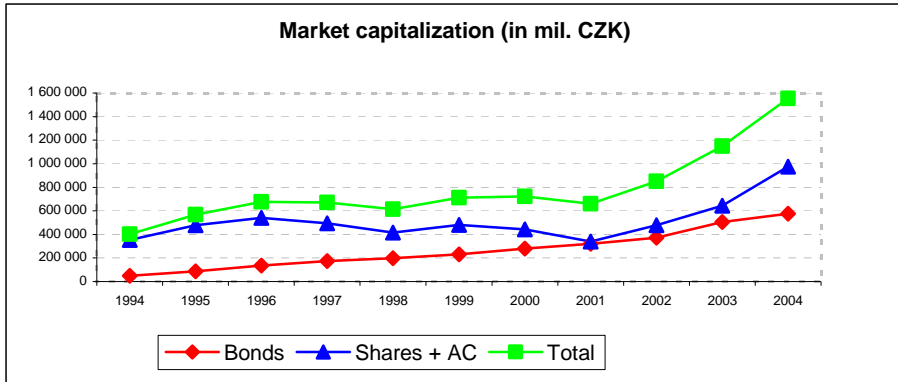
| | Bonds | Shares | Allotment cer. | Total | Shares + AC |
|------|--------------|---------------|-----------------------|--------------|--------------------|
| 1994 | 50 004,2 | 350 981,3 | 2 121,6 | 403 107,1 | 353 102,9 |
| 1995 | 87 832,0 | 471 116,5 | 7 517,5 | 566 466,0 | 478 634,0 |
| 1996 | 136 917,7 | 530 008,2 | 9 234,0 | 676 159,9 | 539 242,2 |
| 1997 | 174 005,1 | 481 431,4 | 14 249,0 | 669 685,5 | 495 680,4 |
| 1998 | 198 107,1 | 401 065,2 | 15 136,9 | 614 309,2 | 416 202,1 |
| 1999 | 231 116,4 | 463 549,7 | 16 099,8 | 710 765,9 | 479 649,5 |
| 2000 | 280 074,9 | 428 916,3 | 13 977,5 | 722 968,7 | 442 893,8 |
| 2001 | 319 399,5 | 338 758,4 | 1 492,3 | 659 650,2 | 340 250,7 |
| 2002 | 372 487,7 | 478 038,3 | 0,0 | 850 526,0 | 478 038,3 |
| 2003 | 505 535,7 | 644 483,0 | 0,0 | 1 150 018,7 | 644 483,0 |
| 2004 | 577 036,0 | 975 774,0 | 0,0 | 1 552 810,0 | 975 774,0 |

source: PSE

⁵ This value has been overcome in September 2005

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Graph 3 – Market capitalization by securities



source: own

Phases of growth can be seen in years 1996 and 1999 that have been followed by decreases in 1997 and 2001. Those decreases have been caused by unsteady capitalization of traded shares and bonds. Since 2002 market capitalization has grown because of the increased capitalization of bonds but mainly because of a significant increase in the capitalization of traded shares.

A big impact had the Zentiva IPO which will hopefully lead to more IPOs on PSE.

As it can be observed, the PSE market capitalization doubled from 2002 to the end of 2004, increasing in the last 3 years by 82%.

Market capitalization on PSE markets

Table 3 and graph 4 show market capitalization on different PSE markets.

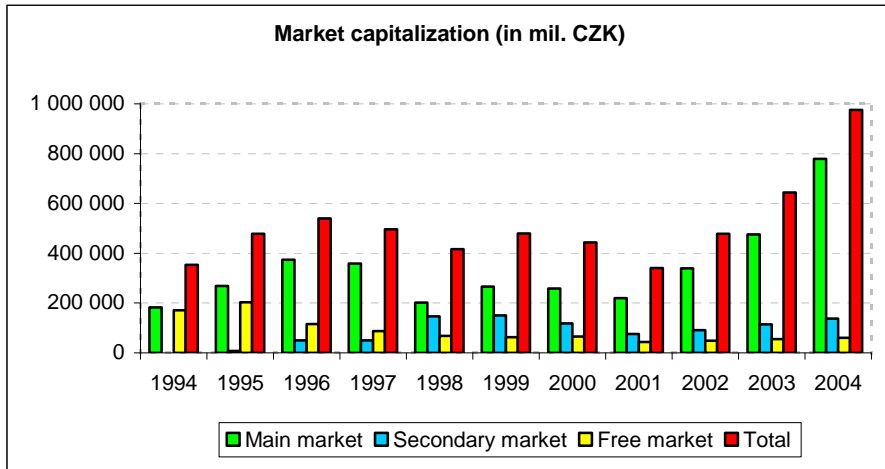
Table 3

Market capitalization on PSE markets (in mil. CZK)

| | Main market | Secondary market | Free market | Total |
|------|-------------|------------------|-------------|---------|
| 1994 | 182 177 | 0 | 170 926 | 353 103 |
| 1995 | 268 450 | 7 549 | 202 635 | 478 634 |
| 1996 | 373 430 | 50 140 | 115 672 | 539 242 |
| 1997 | 358 632 | 49 576 | 87 473 | 495 681 |
| 1998 | 201 620 | 147 001 | 67 581 | 416 202 |
| 1999 | 266 484 | 150 300 | 62 866 | 479 650 |
| 2000 | 258 041 | 118 860 | 65 992 | 442 893 |
| 2001 | 220 433 | 76 326 | 43 492 | 340 251 |
| 2002 | 338 951 | 90 740 | 48 347 | 478 038 |
| 2003 | 475 027 | 114 125 | 55 331 | 644 483 |
| 2004 | 778 342 | 137 635 | 59 797 | 975 774 |

source: PSE

Graph 4 – Market capitalization on PSE markets



source: own

Graph 4 shows the evolution of market capitalization on PSE markets. It is evident that the main market plays the most important role; it is a place where most of the trades happen and the most liquid issues are placed. In 2004 80 % of total market capitalization have been represented by shares traded on the main market

Market capitalization and number of issues of shares and allotment certificates

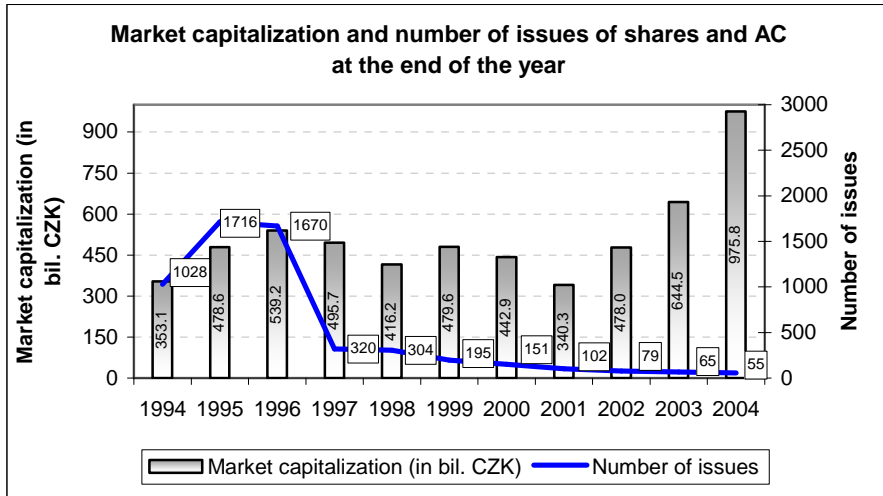
In table 4 and graph 5 are presented numbers of issues in relation to market capitalization.

Table 4

Market capitalization by number of issues

| | Number of issues | Market capitalization (in bil. CZK) |
|------|------------------|-------------------------------------|
| 1994 | 1028 | 353,1 |
| 1995 | 1716 | 478,6 |
| 1996 | 1670 | 539,2 |
| 1997 | 320 | 495,7 |
| 1998 | 304 | 416,2 |
| 1999 | 195 | 479,6 |
| 2000 | 151 | 442,9 |
| 2001 | 102 | 340,3 |
| 2002 | 79 | 478,0 |
| 2003 | 65 | 644,5 |
| 2004 | 55 | 975,8 |

source: PSE

Graph 5 - Market capitalization by number of issues

source: own

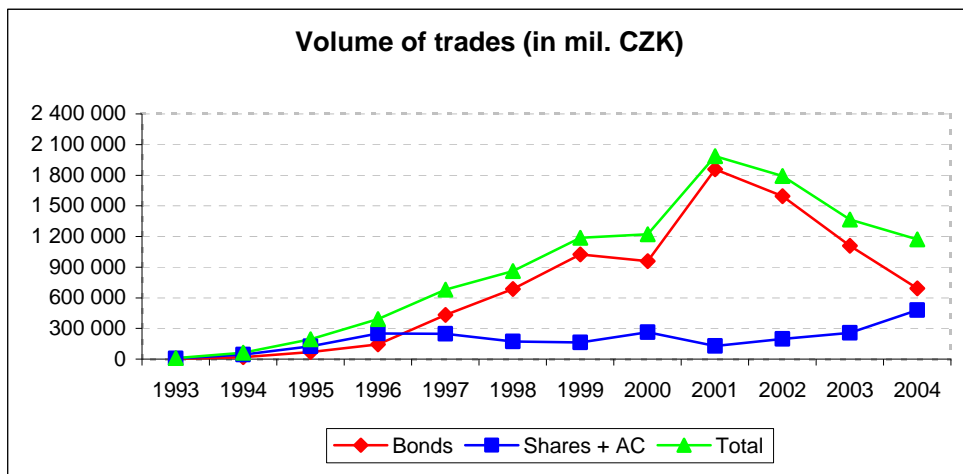
In graph 5 is presented the number of issues of shares and allotment certificates between 1994 and 2004. Since 1996 when lots of issues had been withdrawn from trading because of liquidity deficiency, the number of new issues is still decreasing. On the contrary the prices of traded shares have increased dramatically leading to an increase of market capitalization in last years.

*Volume of trades***Volume of trades as per different types of securities****Table 5****Volume of trades as per different types of securities**

| | Bonds | Shares | Allotment c. | Total | Shares + AC |
|------|--------------|---------------|---------------------|--------------|--------------------|
| 1993 | 1 890,5 | 7 116,6 | 13,3 | 9 020,4 | 7 129,9 |
| 1994 | 19 432,3 | 42 575,8 | 18,1 | 62 026,2 | 42 593,9 |
| 1995 | 69 764,1 | 124 902,9 | 739,8 | 195 406,8 | 125 642,7 |
| 1996 | 143 264,3 | 246 989,6 | 2 945,7 | 393 199,6 | 249 935,3 |
| 1997 | 433 235,6 | 241 897,7 | 4 404,2 | 679 537,5 | 246 301,9 |
| 1998 | 687 597,6 | 169 213,6 | 3 380,4 | 860 191,6 | 172 594,0 |
| 1999 | 1 024 029,0 | 160 862,1 | 2 594,6 | 1 187 485,7 | 163 456,7 |
| 2000 | 958 687,6 | 261 672,5 | 2 472,8 | 1 222 832,9 | 264 145,3 |
| 2001 | 1 858 379,8 | 128 754,2 | 44,9 | 1 987 178,9 | 128 799,1 |
| 2002 | 1 595 673,5 | 197 388,8 | 8,7 | 1 793 071,0 | 197 397,5 |
| 2003 | 1 110 103,9 | 257 442,4 | 0,0 | 1 367 546,3 | 257 442,4 |
| 2004 | 692 479,7 | 479 661,5 | 0,0 | 1 172 141,2 | 479 661,5 |

source: PSE

Graph 6 - Volume of trades as per different types of securities

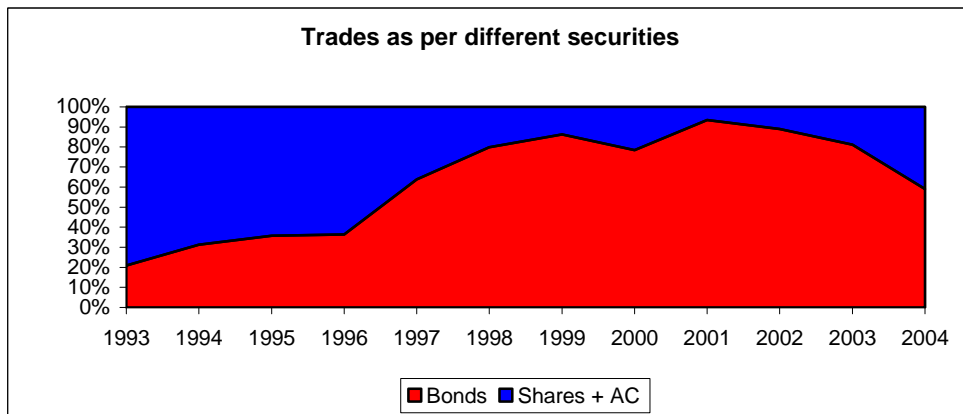


source: own

From both graph 6 and table 5 can be seen a huge increase of total volume of trades. This has been caused mainly by bonds. Share trading has been unsteady and shaky.

The main reason has been especially the lack of new and liquid issues. This trend has been reversed in 2004 when volume of traded shares increased by 86 % compared to 2003. In total however PSE registered a decline in the total volume of trades because of lowered investors' interest in bonds.

Graph 7 – Trades as per different securities



source: own

In 2002 the first foreign issues – ERSTE BANK – has been listed on PSE. During 2003 this issue has been joined by Zentiva, a.s. (owned by Dutch owners)

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which has triggered an increase of traded shares by 30 % to 257 bil. CZK. The reason for this boom has been an extraordinary capital inflow related to accession of Czech Republic to European Union in May 2004. Foreign issue ORCO (an investment company based in Luxembourg) has been listed in February 2005 and later in 2005 another foreign issue CETV has been listed. Using a year-on-year comparison we can see significant increase of share trades at the expense of bond trades as investors finally started to put money into more risky securities and not just into bonds. This trend can be expected to continue in following years.

Volume of trades on PSE markets

In table 6 and graph 8 are presented the volumes of trades on different PSE markets.

Table 6

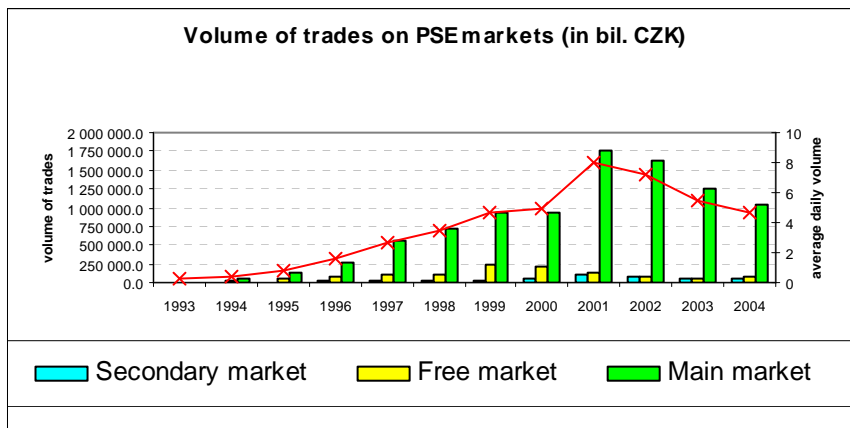
Volume of trades on PSE markets (in bil. CZK)

| | Main market | Secondary market | Free market | Number of exchange days | Average daily volume |
|------|-------------|------------------|-------------|-------------------------|----------------------|
| 1993 | 3 532,9 | 0,0 | 5 487,2 | 41 | 0,220 |
| 1994 | 43 352,6 | 0,0 | 18 673,5 | 161 | 0,385 |
| 1995 | 136 689,6 | 214,1 | 58 503,2 | 234 | 0,835 |
| 1996 | 262 665,1 | 38 423,0 | 92 111,5 | 249 | 1,579 |
| 1997 | 564 527,4 | 21 228,8 | 93 781,4 | 250 | 2,718 |
| 1998 | 721 810,8 | 35 476,1 | 102 904,7 | 251 | 3,427 |
| 1999 | 921 644,1 | 24 334,7 | 241 506,9 | 254 | 4,675 |
| 2000 | 945 941,1 | 65 027,1 | 211 864,4 | 249 | 4,911 |
| 2001 | 1 751 709,6 | 105 960,0 | 129 509,4 | 250 | 7,949 |
| 2002 | 1 627 714,3 | 72 242,0 | 93 114,7 | 250 | 7,172 |
| 2003 | 1 259 116,5 | 59 309,3 | 49 120,5 | 251 | 5,448 |
| 2004 | 1 051 161,0 | 53 459,3 | 67 520,9 | 252 | 4,651 |

source: PSE

Graph 8 shows the evolution of volume of trades on PSE markets. Secondary market and free market have a sluggish tendency because of insufficient liquidity of traded issues.

Graph 8 - Volume of trades on PSE markets (in bil. CZK)



source: own

Structure of volume of trades between 6.4.1993 and 31.12.2004

Table 7 and graph 9 show structure of volume of trades on PSE markets.

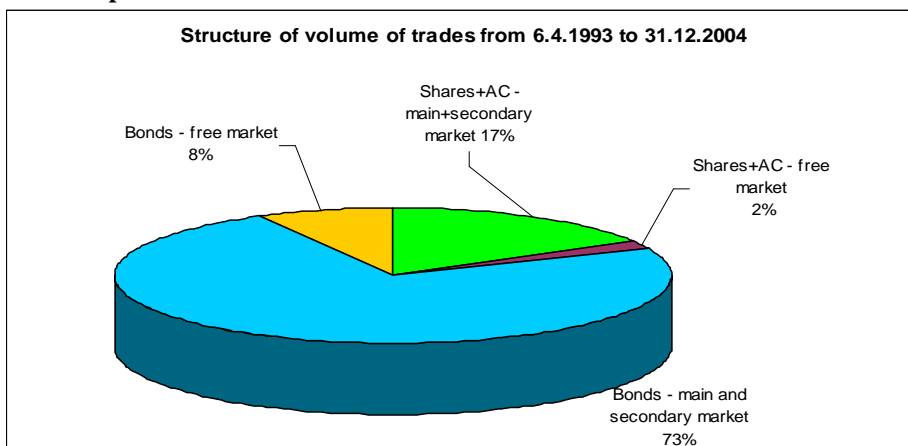
Table 7

Total volume of trades on PSE markets (in bil. CZK)

| | Shares + AC | Bonds |
|------------------|-------------|-------------|
| Main market | 1 323 345,1 | 6 193 542,9 |
| Secondary market | 125 070,0 | 181 130,7 |
| Free market | 157 037,1 | 690 186,5 |

source: PSE

Graph 9 – Structure of volume of trades between 6.4.1993 and 31.12.2004



source: own

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Graph 9 shows the total volume of trades on different markets during the last 12 years. Lack of “blue chips” issues and IPOs is reflected by only 17% share of traded shares out of total trades.

Traded bonds represent almost ¾ of all realized trades on main and secondary market.

Numbers of traded shares and allotment certificates

Table 8 and graph 10 present the numbers of traded shares and allotment certificates between 1993 and 2004.

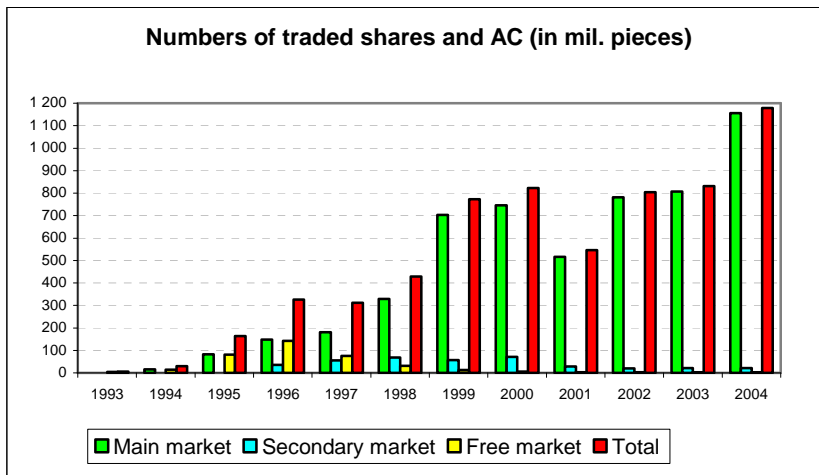
Table 8

Numbers of traded shares and allotment certificates (in mil. pieces)

| | Main market | Secondary market | Free market | Total |
|------|-------------|------------------|-------------|-----------|
| 1993 | 0,414 | 0,000 | 4,594 | 5,008 |
| 1994 | 15,466 | 0,000 | 14,647 | 30,113 |
| 1995 | 82,264 | 0,632 | 81,261 | 164,157 |
| 1996 | 148,510 | 35,935 | 141,878 | 326,323 |
| 1997 | 181,235 | 55,482 | 74,936 | 311,653 |
| 1998 | 328,519 | 68,838 | 31,377 | 428,734 |
| 1999 | 703,818 | 56,237 | 12,606 | 772,661 |
| 2000 | 746,216 | 71,331 | 5,364 | 822,911 |
| 2001 | 516,456 | 27,771 | 2,317 | 546,544 |
| 2002 | 781,245 | 20,188 | 2,672 | 804,105 |
| 2003 | 807,643 | 21,490 | 1,637 | 830,770 |
| 2004 | 1 155,431 | 21,723 | 1,953 | 1 179,107 |

source: PSE

Graph 10 – Numbers of trades shares and allotment certificates (in mil. pieces)



source: own

Graph 10 shows a significant increase of the number of shares related with an increased interest of local investors. Entrance into EU, published excellent results of companies, high increase of GDP and a stable political situation attract also more and more foreign investors. Return on investment is currently good which is however connected with higher risk).

P/E ratio, P/BV ratio and dividend yield

Table 9 presents the evolution of PSE indicators.

Table 9

Evolution of PSE indicators

| year | P/E | P/BV ⁶ | div. yield |
|--------|-------|-------------------|------------|
| I.94 | 25,40 | 3,62 | 0,51 |
| VI.94 | 13,94 | 1,93 | 1,06 |
| XII.94 | 12,51 | 1,54 | 1,62 |
| I.95 | 11,22 | 1,35 | 1,89 |
| VI.95 | 10,10 | 1,27 | 2,09 |
| XII.95 | 10,40 | 1,28 | 1,88 |
| I.96 | 11,42 | 1,31 | 1,70 |
| VI.96 | 12,79 | 1,49 | 1,29 |
| XII.96 | 12,69 | 1,49 | 1,43 |
| I.97 | 13,30 | 1,57 | 1,38 |
| VI.97 | 13,59 | 1,30 | 1,71 |
| XII.97 | 13,70 | 1,31 | 1,51 |
| I.98 | 12,60 | 1,20 | 1,64 |
| VI.98 | 17,10 | 1,26 | 1,14 |
| XII.98 | 14,28 | 1,05 | 1,47 |
| I.99 | 13,73 | 1,03 | 1,06 |
| VI.99 | 15,71 | 1,27 | 1,33 |
| XII.99 | 15,94 | 1,38 | 0,62 |
| I.00 | 18,08 | 1,56 | 0,54 |
| VI.00 | 15,80 | 1,60 | 1,13 |
| XII.00 | 16,65 | 1,54 | 0,59 |
| I.01 | 22,15 | 1,62 | 0,53 |
| VI.01 | 7,86 | 1,35 | 5,36 |
| XII.01 | 7,50 | 1,30 | 6,69 |
| I.02 | 6,65 | 1,41 | 5,05 |
| VI.02 | 6,76 | 1,43 | 5,00 |
| XII.02 | 8,14 | 1,44 | 3,62 |

⁶ P/BV = price / book value

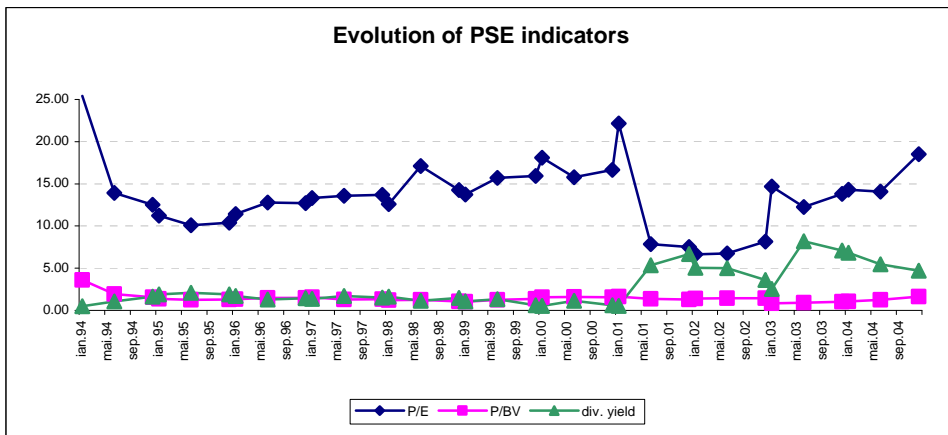
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| | | | |
|--------|-------|------|------|
| I.03 | 14,69 | 0,82 | 2,55 |
| VI.03 | 12,24 | 0,91 | 8,20 |
| XII.03 | 13,79 | 1,04 | 7,09 |
| I.04 | 14,30 | 1,08 | 6,83 |
| VI.04 | 14,07 | 1,25 | 5,46 |
| XII.04 | 18,53 | 1,65 | 4,70 |

source: PSE

Measure of linear interdependence of P/E and P/BV indicators is 0,5213. Based on the figure of correlation coefficient certain direct linear interdependence can be seen. The P/E ratio indicator reached its minimal values in 2001 and 2002. Since 2003 the value is around 20. There has been almost no dividend yield on Czech capital market until 2001. Dividend payout has been started by entrance of foreign investors and by privatization of big companies.

Graph 11 - Evolution of PSE indicators



source: own

Conclusion

Capital market in the Czech Republic has gone through many changes during 1990s and has been influenced mainly by coupon privatization. A crucial factor has been the establishment of Czech Securities Commission which played an important role in cleaning the capital market of illiquid issues.

Czech capital market has become more attractive for foreign investors after Czech Republic's entrance into European Union and they have awakened PSE from its lethargy. PSE has broken many records of its short history in last years.

To become a really important stock exchange in central Europe PSE needs to attract more IPOs. Government help would be a really positive sign if PSE would be

used in privatization but unfortunately this didn't happen during latest privatization of Český Telecom.

The primary aim of PSE should be the communication with Czech companies – candidates for IPOs. Another problem is the fact that PSE members complain about high costs of trade realization. For example key market makers have to pay a fee of 660 thousand CZK each year without getting any service for this fee.

Acceptance of issues of foreign companies has been a huge contribution to flurry and enrichment of otherwise quite a short list of interesting tradable issues in last few years.

THE ROLE OF EURO BALKAN ECONOMIC COLLABORATION IN THE LOCAL DEVELOPMENT OF FRONTIER REGIONS: DOUBTS AND DELAYS IN THE PREFECTURE OF FLORINA

ELEKTRA PITOSKA¹

ABSTRACT. The EU assumed the major role in providing the funds, the technical support and the orientation of the foreign economic and political relations for the countries in transitional process. Therefore, a new network of intergovernmental cooperation relations was elaborated, given the fact that the Balkan countries concur almost exclusively with the EU (Euro-Balkan cooperation), and furthermore various agreements and cooperation initiatives were laid out.

Since the implementation of the Euro-Balkan cooperation and regional policy agreements assumed already a time period of 15 years, we observe that the optimism raised originally for the development of marginalized EU borderline regions has nowadays attenuated. Furthermore this situation raised a serious issue/ question: in which extend are these regions - in crisis and reformation - actually converging.

In 2005 a research regarding the inter-border prefecture of Florina was carried out in order to evaluate the contribution of the European programs in the actual development of inter-border cooperation.

The evaluation of the implementation process for the Interreg III Project, which was considered to progress slowly, in correlation to the findings of the empiric research, demonstrated that, despite the European initiatives and funding, the danger of missing out the opportunity to egress from the isolation and to fail in a feasible inter-border role, is always present.

Key-words: Euro- Balkan cooperation, development, European initiatives, borderland regions.

INTRODUCTION

The important changes and developments that have taken place during the last fifteen years within the EU (economic and monetary union, enlargement) have the tendency to evoke important issues in those regions that are unequally endowed in terms of resources, infrastructure, technology and have varied economic structures.

Generally speaking, peripheral regions are those who represent weaker economic structures, insufficient infrastructure, less human resources and thereupon they are not able to assert the equivalent opportunities as well as the best possible progress in the framework of the integration procedure. Therefore, integration

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policies are combined with intervention policies that are aiming in the direction of counterbalancing the negative consequences due to the released forces within the market as well as in the direction of reinforcing the less developed and structurally weaker regions.

During the same time period, the transitional procedure of the former socialist countries, originated (or even revealed) inequalities that are considered as unfamiliar for European standards. Furthermore, an even more negative particularity of the new economic area was detected in respect to the ongoing aberration tendency of the countries in the Balkans.

The afore mentioned situation showed the question regarding the forms as well as the intension of the cooperation achieved between the countries of western and the countries of Eastern Europe. The EU assumed the major role in providing the funds, the technical support and the orientation of the foreign economic and political relations for the countries in transitional process. Therefore, a new network of intergovernmental cooperation relations was elaborated, given the fact that the Balkan countries concur almost exclusively with the EU (Euro-Balkan cooperation), and furthermore various agreements and cooperation initiatives were laid out.

Today, the EU is laying the ground for the foundation of a new project of inter-border cooperation on an international and inter-peripheral level.

Since the implementation of the euro-Balkan cooperation and regional policy agreements assumed already a time period of 15 years, we observe that the optimism raised originally for the development of marginalized EU borderline regions has nowadays attenuated. Furthermore this situation raised a serious issue/ question: in which extend are these regions - in crisis and reformation - actually converging.

In 2005 a research regarding the inter-border prefecture of Florina was carried out in order to evaluate the contribution of the European programs in the actual development of inter-border cooperation.

The evaluation of the implementation process for the Interreg III Project, which was considered to progress slowly, in correlation to the findings of the empiric research, demonstrated that, despite the European initiatives and funding, the danger of missing out the opportunity to egress from the isolation and to fail in a feasible inter-border role, is always present.

1. EUROPEAN AND BALKAN ECONOMIC CO-OPERATION

Europe is changing rapidly, as the old dividing lines, whether real or perceptual, are undergoing changes and being replaced by new ones. Although both the processes of European integration and the transition of South Eastern European countries are linked to high expectations concerning development and prosperity, they face significant – though of different intensity – difficulties that seem to be characterized by a strong spatial dimension [G. Petrakos, 2000]. At the same time, issues concerning the form and level of co-operation between the West and the new European East have been raised with urgency. Both the transition

process and the quest for new co-operation institutions pose a challenge not only to countries in transition, but also to countries of the West, which have been called upon to support the arduous and time-consuming systematic adjustment, while also responding to the new outward orientation and the opening up of Central and Eastern European (CEE) countries. The European Union has been summoned to deal with the largest part of the challenge in question. Geographical, political, economic, historical and cultural grounds have determined the EU's new role as provider of financial and technical support, but also as a new focal point, a centripetal force, in the reorientation of the foreign economic and political relations of countries in transition. Hence, following the initial changes in CEE countries, a new organizational architecture has begun to govern European relations [A. Kotios, 2000].

The transition process towards a western-style parliamentary democracy and market economy and the process of integration into the western co-operation forums, which was set into action after the collapse of the old socialist systems in almost all of the CEE countries, entail significant structural and institutional adjustments. These adjustments, in turn, give rise to economic, social and political costs. In order to lessen the adjustments cost and expedite the smooth harmonization of the sociopolitical and economic systems of CEE countries with western standards, which will gradually enable their future integration into the Western European co-operation structure, support measures have been developed and implemented by the EU since 1989. The EU implements the Phare Programme, by funding co-operation initiatives through the European Investment Bank and the European Bank for Reconstruction and Development and by promoting cross-border co-operation through the Interreg initiative.

2. A PRELIMINARY ASSESSMENT OF EUROPEAN – BALKAN CO-OPERATION

A preliminary assessment leads to the conclusion that the European – Balkan co-operation initiative has not achieved satisfactorily its objectives and aspirations. Despite the efforts and the means that were employed, Balkan countries in the process of transition continue to face significant problems both with respect to their economic transformation and the establishment of stable domestic democratic institutions. Worse still, the region as a whole is in a state of flux, insecurity and limited development prospects, a situation that was further aggravated following the conflict in the Federal Republic of Yugoslavia.

All this is taking place at a time when other former socialist countries of CEE are changing and recovering. The gap between Western and Eastern Europe is rapidly developing into a gap between Western-Central and Southeastern Europe [A. Kotios, 2000].

A pyramid of relations has developed, whose base is occupied by the less developed countries (e.g. Albania, FYROM), followed by Bulgaria and Romania, and then Turkey, with Greece at the very top of the pyramid. Finally, Balkan

countries have failed to promote Balkan co-operation initiatives on a political and economic level. Most countries aimed at their integration into the Western European Architecture and not the creation of a new Balkan architecture, thereby ignoring that ensuring regional stability and co-operation is of primary importance [A. Kotios, 2000].

Balkan countries do not have an alternative to their integration into European institutions. Irrespective of the importance of various types of inter-Balkan co-operation, they have been undermined to such an extent by Balkan history that they need to “escape” from the Balkans. These countries will only be able to escape from the impasse of their Balkan “history”, if they enter into European institutions and integration initiatives [S. Valden, 2004].

3. THE EUROPEAN COMMUNITY INITIATIVE INTERREG III

The overall aim of INTERREG III is that national borders should not be a barrier to the balanced development and integration of European territory. The isolation of border areas has, on the one hand, cut off border communities from each other economically, socially and culturally and, on the other, border areas have often been neglected under national development policy, with the result that their economies have tended to become peripheral within national boundaries. The enlargement of the EU has increased the number of its internal borders and shifted its external borders eastwards, making this point in time more suitable than ever for designing a development policy for the Program’s border regions, which will contribute towards the aim of creating an integrated European territory.

4. THE OPERATIONAL PROGRAMME INTERREG III A GREECE – FORMER YUGOSLAV REPUBLIC OF MACEDONIA

4.1. General

The Operational Programme INTERREG III A Greece – Former Yugoslav Republic of Macedonia 2000 – 2006 was granted by the European Commission by Resolution No. E (2002) 118 /19-03-2002.

Total funding for the Programme amounts to **103,333,333 €**, of which 73,000,000 € constitute the financial contribution of the ERDF and 30,333,333 € derive from national funding.

4.2. An overall view of the cross-border region of Greece – the Former Yugoslav Republic of Macedonia

The cross-border region eligible under Interreg includes the Prefecture of Florina on the Greek side and the neighboring Municipalities of Bac, Bistrica, Bitola, Vitoliste, Kavadarci, Konopista, Murtino, Novo Selo, Prilep, Resen, Staravina, Ohrid, etc. on the side of FYROM.

Up to 1912 these municipalities formed a unified administrative and economic area, a kaza that came under the Sanjak of Monastir (Bitola)².

Irrespective of the socio-political changes in the international political scene, diverse cross-border co-operation initiatives have always been developed and cross-border ties have been maintained in the area. The region and people of Florina have paid a heavy price for the “the border’s” successive forms between 1912 and 2005. They have shouldered huge economic and social costs compared to other regions of the Greek state [E. Kofos, 2004].

In the space of 93 years (1912 – 2005) there were certain exceptions in the form of interstate treaties, which suggested that an opportunity was opening up for lifting the Prefecture of Florina out of isolation. The agreements of 1959 represent such an exception [S. Valden, 1991].

Today Florina seems to be shedding its “border” characteristics and all the related distorting views and perceptions on the area and its inhabitants. Florina is acquiring its interior, it has ceased to be the final station and is steadily on course to attaining its European identity [E. Kofos, 2004]. The most important developmental tool in this course is the Interreg program.

4.3. Objectives, Strategy and Priority Axes

The development strategy concerning the cross-border region took into account both advantages and disadvantages of the eligible regions and determined the following *general objective* for the Programme:

“The development of the region as a nucleus and nexus for peace, sustainable development and expansion of the European Economic Area in the interior of the Balkans.”

On the basis of the above fundamental objective, the operational objective of the Programme is to:

“Strengthen cooperation of the region in the socio-economic sectors of common interest, in order to make the region able to compete effectively in the new Environment which is taking shape in the Balkan peninsula”.

² The administrative division of the Ottoman Empire consists of pashaliks, which are wider provinces, the sanjaks, which are smaller zones and come under the pashaliks. Sanjaks are subdivided into kazas.

In the mid 19th century the Pashalik of Monastir (Bitola) included the largest section of Macedonia, central Albania and a small part of Epirus or Lower Albania. To the north it bordered with the pashaliks of Skoutari, Skopje and Nic, to the west it was washed by the Adriatic Sea, to the south it bordered with the pashaliks of Ioannina and Larissa and to the east with the pashaliks of Thessaloniki and Nic. The Pashalik of Bitola included the sanjaks of Monastir (Bitola), Ohrid and Koritsa.

The Sanjak of Monastir was divided into 11 kazas: Monastir, Prespa, Florina, Perlepe, Kritsovo, Velesses, Tifkes, Ostrovo, Egri Boutzak (presently the southern section between Ptolemaida and Drepano), Tsartsampa (presently the areas of Kozani and Aliakmonas bridge) and Servia. Taken from K.A. Vakalopoulos: “Politics, social and economic structure of the Monastir Pashalik in the mid 19th century” (in Greek) (reprint), published by the Public Library of Florina “Vassiliki Pitoska”, Florina, 1990.

The following specific goals are derived from an analysis of the basic and operational objective of the programme:

1. Ending the geographical and communication isolation of the region
2. Improving border safety
3. Economic development and promotion of employment
4. Operational upgrading of the region in order to deal with the social, cultural, environmental effects/ impacts

The aforementioned Programme objectives will be implemented by means of interventions incorporated in the following 4 Priority Axes and 11 measures.

Table 1.

Priority axes and measures of Interreg III – Greece - FYROM.

| Priority Axis | Measures |
|--|--|
| 1. Cross-border Infrastructure (budget: 55.900.000 €) | 1.1. Transport infrastructures and cross-border networks |
| | 1.2. Improvement of external borders security |
| 2. Economic Development & Employment (budget:21.280.000 €) | 2.1. Aid to business activities |
| | 2.2. Development of alternative forms of tourism/ Highlighting and promotion of cultural and tourist resources |
| | 2.3. Human resources and promotion of employment |
| 3. Quality of Life / Environment (budget: 23.213.333 €) | 3.1. Improvement of quality of life |
| | 3.2. Protection of health |
| | 3.3. Protection, promotion and management of the natural environment |
| | 3.4. Co-operation among educational institutions for the promotion of cross-border co-operation |
| 4. Technical Assistance (budget: 2.940.000 €) | 4.1. Management of program |
| | 4.2. Technical support |

4.4. Progress and implementation of Interreg III .

It has been found that, from the beginning, the implementation of the program by the Greek authorities responsible (Managing Authority, etc.) has been constantly delayed. These delays and the reasons for the delays are mentioned in all (annual and mid-term) Evaluation Reports concerning the European Community Initiative Programme Interreg III.

So far the Programme Managing Authority of the Ministry of Economy and Finance has announced the following calls for proposals.

Table 2.

Calls for Interreg III proposals

| CALLS FOR PROPOSALS | | | | |
|---------------------|------|---|------------|------------|
| Measure | Call | Description | Start | End |
| 1.1 | 1 | Transport infrastructures & Cross-border networks | 01-03-2004 | 01-11-2004 |
| 1.1 | 2 | Transport infrastructures & Cross-border networks | 25-11-2004 | 25-02-2005 |

| | | | | |
|------|---|--|------------|------------|
| 2.2. | 1 | Development of alternative forms of tourism - Projection and promotion of cultural and tourist resources | 12-01-2004 | 26-02-2004 |
| 2.2. | 2 | Development of alternative forms of tourism - Projection and promotion of cultural and tourist resources | 01-03-2004 | 30-04-2004 |
| 3.2. | 1 | Protection of public health | 15-04-2003 | 15-06-2003 |
| 3.2. | 2 | Protection of public health | 07-05-2004 | 21-06-2004 |
| 3.3. | 1 | Protection, promotion and management of the natural environment | 05-02-2004 | 22-03-2004 |
| 3.3. | 2 | Protection, promotion and management of the natural environment | 01-03-2004 | 30-04-2004 |
| 3.3. | 3 | Protection, promotion and management of the natural environment | 25-11-2004 | 15-02-2005 |
| 3.4. | 1 | Co-operation of Educational & Research Institutions | 07-09-2004 | 22-10-2004 |
| 1.2. | 1 | Improvement of external border security | 22-08-2005 | 10-10-2005 |

From the above table, in addition to the slow progress in implementing the program, it is evident that the flow of calls for proposals is intensely fragmented.

Of a total of eleven calls for proposals, eight were issued by 7 September 2004, only two were issued in November 2004 and the sole call in 2005 was announced on 22 August 2005.

The calls for proposals that have been announced constitute a small section of the measures and actions funded by the European Community Initiative Interreg III. A number of approved program actions have yet to be announced and the timeframe until the end of the program, namely 31.12.2006, is extremely limited.

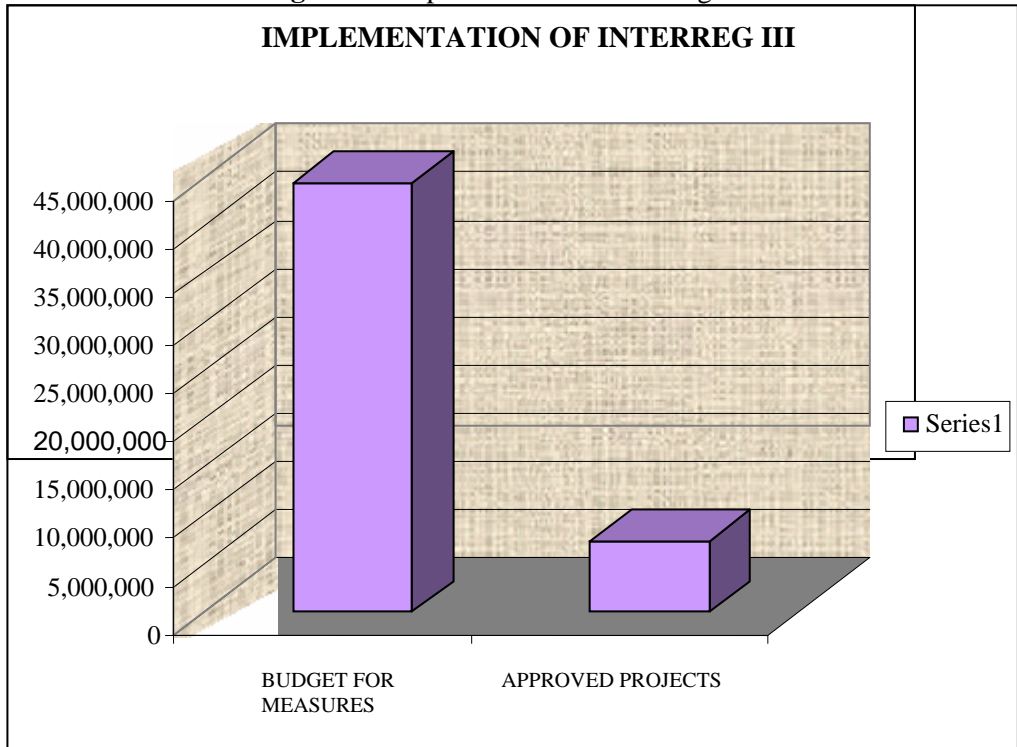
Table 3.

Financial data on the implementation of Interreg III

| Total budget Axis 2 and 4 | Approved projects Axis 2 and 4 | Approved projects for the Prefecture of Florina Axis 2 and 4 |
|------------------------------|-----------------------------------|---|
| 44,493,333 € | 7,364,085 € | 2,705,292 € |

This great delay in announcing the measures caused the Prefect of Florina to address a written protestation to the Vice Minister of Finance and the Office of the Ministry of Foreign Affairs. The cross-border programme Interreg III includes projects (road networks, environmental projects, etc.) that are of great importance for raising the Prefecture out of its isolation and which cannot be funded from other sources.

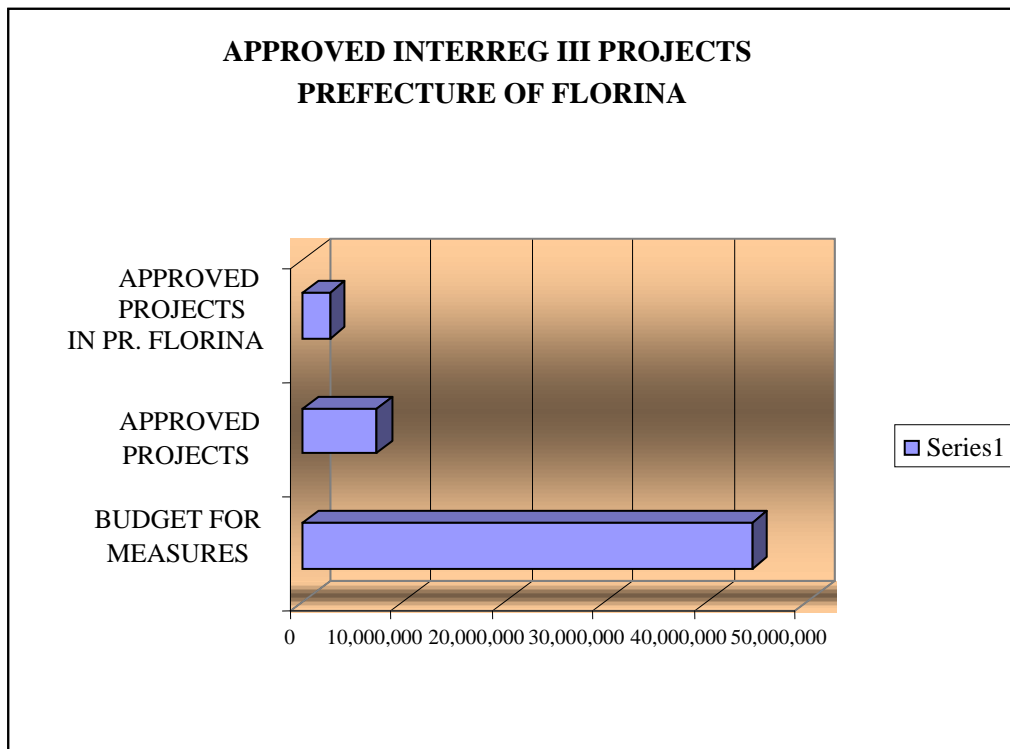
Diagram 1. Implementation of Interreg III



5. EMPIRICAL STUDY

In 2005 (January) a study (with the use of questionnaires) was conducted solely in the Prefecture of Florina. The objective of the study was to record the opinions of the elected authorities and the business sector concerning the role and impact of Greek regional and Balkan policy, in addition to EU regional policy, on the economic relations and transactions between Florina and Bitola. In order to examine the central question, a questionnaire divided into units of questions was designed. The units – groups of questions concern questions on: the economic and commercial relations of the two sides in the past, the assessment of present economic

Diagram 2. Approved Interreg III Projects



and commercial relations, the impact of political and economic changes – decisions on the relations between the two regions, the assessment of regional policy on the region’s economy, prospects – assessment of local cross-border development.

The questionnaires were completed through personal interviews. The list of recipients was determined according to the existing institutional bodies of Florina and amounted to a total of 20³.

³ The questionnaires were sent to the Prefecture’s two members of parliament, the Prefect of Florina, the Mayor of Florina, the President of the local Union of Municipalities and Communities of the Prefecture of Florina, the President of the Chamber, the President of the Labor Centre, the President of the Florina Traders Association, the former President of the Chamber of Florina (who served a twenty year term), the President of the Association of Hoteliers of Florina, the travel agencies of Florina, a representative of the customhouse of Niki, a representative of the Bank of Greece and representatives of greengrocers, coffeehouse keepers and grocers, and shop keepers of shoes, clothes and dowry and white goods.

The only questionnaire not answered was that of the Chief of Police, who was transferred.

6. CONCLUSIONS – A SUMMARY

A review of the bibliography, which was conducted after collecting and studying data on the implementation of the European Community initiative Interreg III, in combination with the findings of the empirical study, leads to the following conclusions:

- Friendly, cultural and economic relations with the people of the Balkans predate the recent changes to the political regimes in these countries.

- Cross-border co-operation is not a new practice in the cross-border zones of the Balkans. In the past, apart from their present vicinity, they constituted a unified administrative and economic area. Creating, encouraging and preserving cultural, social and economic relations between the people of the Balkan countries are imperative to the establishment of a peaceful climate in the region.

- The development of co-operation initiatives with Balkan countries has a positive effect on the economic life of the border regions in Northern Greece. Opening up the borders, pre-existing friendly relations, developing collaborations, the transportation of a significant number of people and goods and the involvement of Greek border towns in co-operation initiatives with similar towns in neighboring countries are all particularly beneficial to the economic activities and the prosperity of border towns in Macedonia and Northern Greece in general.

- Strengthening the economies of the cross-border region eligible under Interreg III will avert their potential marginalization and desolation, both within their national borders and the frame of the unified European area that is taking shape.

- Geographical, political, economic, historical and cultural grounds determined the EU's new role as provider of financial and technical support, but also as a new focal point, a centripetal force, in the reorientation of the external economic and political relations of countries in transition.

- The EU has developed and been implementing support measures for the countries of Central and Eastern Europe since 1989. It implements the Phare Program, it funds co-operation initiatives through the European Investment Bank and the European Bank for Reconstruction and Development and it promotes cross-border co-operation through the Interreg initiative.

- The objective of Interreg III for Greece – FYROM is to promote the region as a nucleus and nexus for peace, sustainable development and the expansion of the European Economic Area in the interior of the Balkans.

- Progress in the implementation of Interreg III for Greece – FYROM is extremely slow, with delays, and the calls for proposals are intensely fragmented.

- Of a total of eleven calls for proposals, eight were issued by 7 September 2004 and only two were issued in November 2004 and one in 2005.

- The calls for proposals that have been announced constitute a small section of the measures and actions funded by the European Community Initiative Interreg III. A number of approved program actions have yet to be announced and the timeframe until the end of the program, namely 31.12.2006, is extremely tight.

- This great delay in announcing the measures caused the Prefect of Florina to address a written protestation to the Vice Minister of Finance and the Office of the Ministry of Foreign Affairs. The cross-border programme Interreg III includes projects (road networks, environmental projects, etc.) that are of great importance for raising the Prefecture out of its isolation and which cannot be funded from other sources.

The findings of the empirical study conducted in the Prefecture of Florina lead to the following conclusions on the role of European policy in local development and cross-border relations:

- According to the majority of persons questioned (74%), Greece's accession to the EU had a positive effect on developments in the cross-border region of Florina – FYROM.

- European regional policy has had a limited to moderate effect (70%) on the development of economic transactions between the two regions from 1990 to the present.

- Compared to economic transactions between the two regions, the contribution of European Community funding is minimal to moderate (84.2%).

- The extent to which the European Community initiative Interreg has contributed to the development of economic relations between the two regions is limited (37%), moderate (24.5%), great (24.5%), while 10.5% believe it has had no effect.

FINAL CONCLUSION

The evaluation of the implementation process for the Interreg III Project, which was considered to progress slowly, in correlation to the findings of the empiric research, demonstrated that, despite the European initiatives and funding, the danger of missing out the opportunity to egress from the isolation and to fail in a feasible inter-border role, is always present.

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APPLICATION OF ECOLOGICAL MANAGEMENT ORGANISATION FOR UKRAINIAN ENTERPRISES

OLEKSANDR V. RODIONOV¹

ABSTRACT. Existing approaches and methods of management of nature protection activity in Ukraine are described, necessity for new approach of management by an environment at the enterprise is proved. With the help of the developed and offered tools of ecological management development of the mechanism of the ecological management organization on industrial enterprises of Ukraine is offered.

Keywords: industrial enterprise, ecological management tools, organization of ecological management

Introduction

Natural resources demand careful management. Managing natural resources wisely is essential to the future of people health, industries development and tourism business. Main goal of natural resources preservation is climate stability, sustainable nature balance and people health.

Natural resources in Europe are increasingly being managed as ecosystems, taking into account both economic benefits and environmental values. In the past years the number of standards in the field of ecological management and environmental techniques has increased. European enterprises constantly perfect their environmental activity and today's industries represent a knowledge-intensive sector that continuously incorporates the latest developments in environmental technology, process control and environmental technology to cater to increasingly advanced demands of people and business in terms of properties, function, new applications and new solutions.

Ukrainian industries represent rather different and not good situation in this sphere. The results of modern environmental solutions approaches are clearly seen now: cutting down of wood fund in Ukraine exceeds its restoration, minning worsens a geological situation, causes erosion of soils. Besides Ukrainian enterprises have very high level of emissions and waste production (Aleksandrov, 1998, p.24).

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That is why there is need in new approach in the sphere of environmental protection. The purpose of the new approach is to perfect the existing ecological management system on Ukrainian enterprises of the branch, that principally was not changed from the eighteenth of the last century. With this aim, the following tasks in the article are formulated:

- * Substantiation of the necessity to implement ecological management at the industrial enterprises.

- * The description of the tools of ecological management developed by the author for the implementation at the industrial enterprises of Ukraine.

The principally new to Ukrainian enterprises approach and instruments are directed to prevent contamination and not on removal of the consequences of enterprises activity.

Material and method

Modern technology, information and communication technologies strengthen the competitive position of industrial enterprises, and help improve productivity and product quality. RTD efforts aim to optimise efficiency throughout the whole production and processing chain, while changing customer requirements also have to be taken into account (Sakwa environment, Benarroch, Gaisford, 2002). Constant environment perfection's solutions and investigation of European industrial enterprises differs them from Ukrainian one. In 1995 the number of ISO 14001 certificates enterprises was 257 in 19 countries, when ISO 14001 was a project, now there are more then 5000 world-wide (Zarca Diaz De La Espina, Benavides Velasco, 2000, p. 169). In Ukraine there are only several ISO 14001 certificates enterprises, their sphere of work is pharmaceuticals and chemical industry. In Ukraine industrial enterprises well know ISO 9001 standard, which is concerned with quality assurance. But certification process is very slow.

European enterprises control and estimate their environmental activities by number of spheres (Graff, 1999, Benarroch, Gaisford, 2002, Jenkins, Hine, 2003). They include personnel, technical, financial and other spheres. Monitoring is constant and gives full information for analytical work. The aim is get as much information as possible for analysis and creation new managing decisions and strategies.

However, results of a technical condition of a manufacture and parameters of environment specifications are consequence of a condition and efficiency of the managing systems and level of their organization on the enterprise.

In Ukraine, there is enough attention is paid to a technical estimation of enterprises environmental activity (Aleksandrov, 1998, Dzhigirey, 2002, Kuznetsov, 2003). But the question of an estimation of a condition of other spheres and their influence on environmental activity and the organization of ecological management at industrial enterprises is insufficiently considered.

Industrial enterprises in the EU are based on a well-managed, renewable resource. By continuing to support the sustainable management of resources and promoting the use of more products from them we can make an important contribution to the global climate. Constantly carry out education and training in the sphere of environmental management: companies training, seminars. R&D works are in action: CCA and other investigations. Suggested changes in management organisation: EMS strategy matrix, waste management solutions and other directions and perfection (Zarca Diaz De La Espina, Benavides Velasco, 2002, p. 173, Benarroch, Gaisford, 2002, p. 4, McDonach, Yaneske, 2002, p. 218).

Ukrainian enterprises at the moment have no environment protection programs and activity.

Harmful emissions of Ukrainian industrial enterprises in to environment have reached the volumes, which by different indicators exceed allowable by sanitary norms. Some decrease of emissions fall down in nineteen's of the last century was in EU and US due to new technologies and management approaches, in NIS countries it was caused by political and economical fall down.

From the middle of the ninetieth years of the last century, in Ukraine, legislative measures on protection of an environment became more active, however, economic levers of influence on the enterprises-polluters of the branch were insignificant, that has caused economic policy of the industrial enterprises to ecological management organization and environmental protection activity: environment is still polluting, constantly grow industrial wastes amount.

Organization and implementation of ecological management in models of market transformations in Ukraine till now is not looked through, and insufficient attention is paid.

Analysing the situation in the industries and conditions in the country, the author is grouping the factors that cause the necessity of ecological management organization in industrial enterprises, fig. 1.

Practice of European enterprises has proved opportunity to decrease negative influence on an environment on 20-40 % on the basis of use without waste technologies and ecological management's instruments.

Ukraine has a number of consulting enterprises offering the services in environmental sphere, however the sphere of services is limited enough, fig. 2.

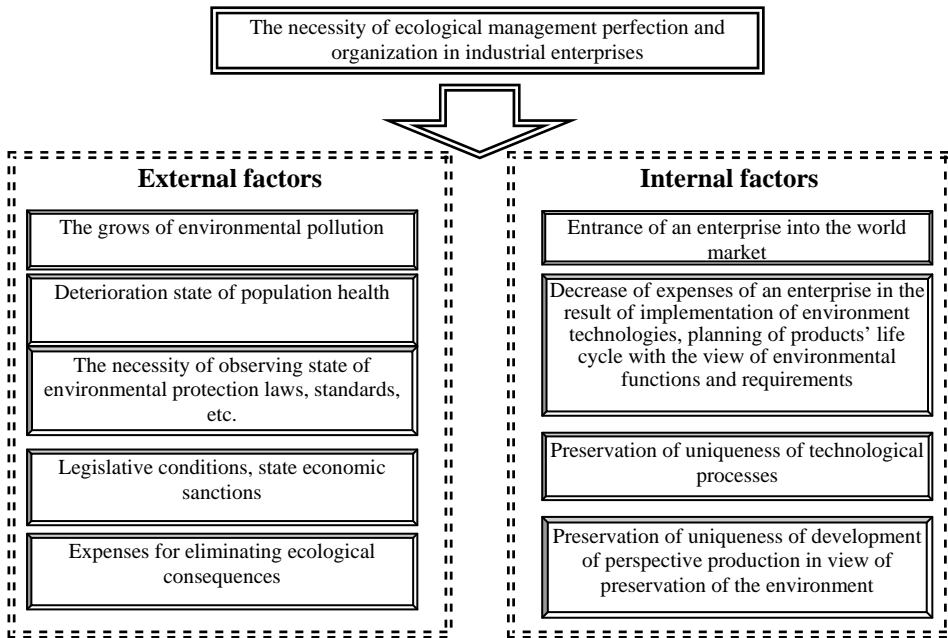


Figure 1. Factors necessitating ecological management in industrial enterprises

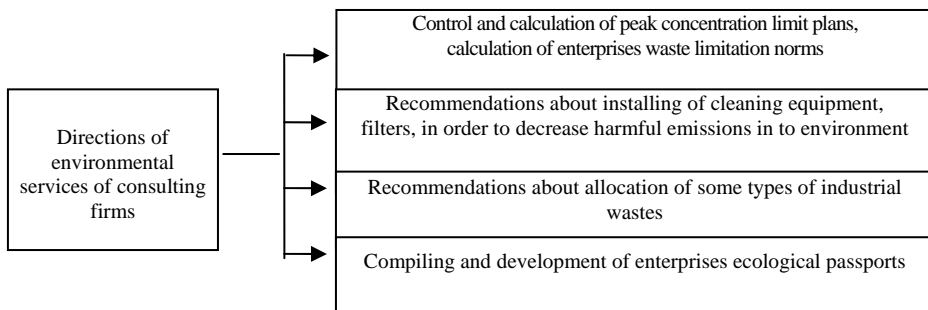


Figure 2. Directions of Ukrainian consulting firms' services in environmental sphere

Consultation firms are concentrated in sphere of the technical help. Organizational support and consultation for the industrial enterprises practically is not given. Addressing to the consulting enterprises for questions of environmental protection activity has a number of lacks for the industrial client enterprise:

- * Limitation of services.
- * The single help, absence of regular monitoring.
- * Threat of infringement of a trade secret of the enterprise.
- * High cost of services.

The consulting enterprises do not carry out environmental monitoring activity of a client, due to financial insufficiency situation of consultation firm and sometimes due to problems of permission to it from clients' side, as there is no trust to consultants because of the risk of infringement of confidentiality of the information. These factors do not give opportunity to the full, qualitative help of the consultant.

By results of the interrogation carried out by the author it was established, that only 5 % of the interrogated enterprises have environmental protection departments (Rodionov, 2002, p.25). The basically, to the duty of existing environmental protection departments concern the account of environmental contamination, calculation of scheduled emissions, and calculation of the size of payment of the tax for environmental contamination on the basis of the made calculations, less often repair and replacement of the environmental protection equipment. The total number of the interrogated enterprises was 38 (Rodionov, 2002, p.18).

Program and process of developing these directions needs unique, national approach, that will account cultural, economical, territorial countries factors and worlds experience in this sphere.

Results

The analysis of national literature testifies, that the question of the organization of ecological management and an estimation of its condition in industrial enterprises is not advanced enough. In this connection there is suggested to plan life cycle of products in industrial enterprises, in particular in view of environmental factors. To one of obligatory stages of life cycle of products refer secondary use and recycling of raw material, products and their elements. This stage is absent now on Ukrainian enterprises; besides environmental management functions are separate from product life cycle that is why functions of ecological management should be co-ordinated with the industrial enterprises products life cycle stages, fig. 3.

One of responsible stages is the stage of development of a product that takes into account such factors as: designing of environment safety of a product, recycling and secondary use of a product etc.

Definition of market and legal requirements to a product of industrial enterprises assumes that before developing of a product, should be conducted and accounted some obligatory factors: consumers inquiries, a situation in the market, legal restrictions of branch, use of non-polluting equipment and technologies and other. Economic, technical, functional, environment and other qualities of a product are compared, and only after this the final decision about its development and manufacture then is made.

As Ukrainian industrial enterprises are material-intensive, and are the basic polluters and waste manufactures there must be created program for waste reduction and waste use in other economical and industrial branches.

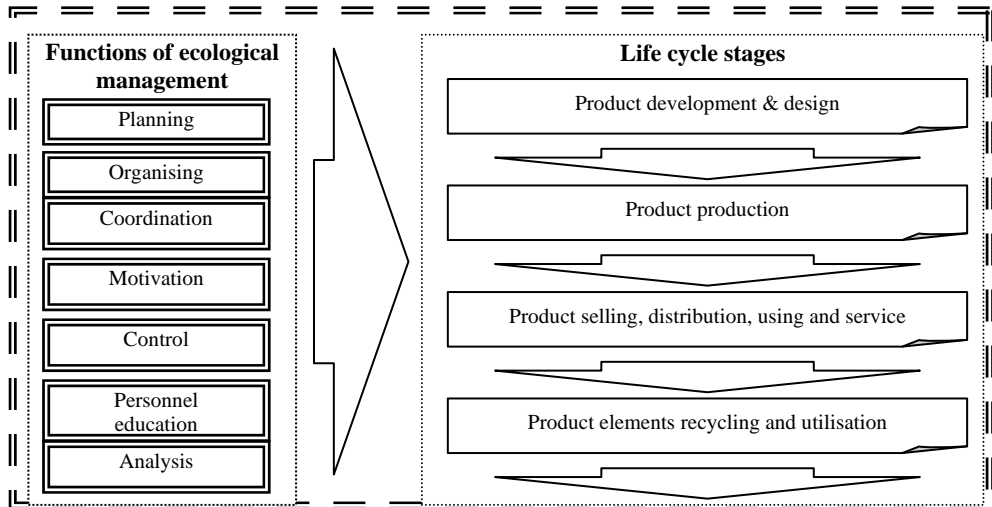


Figure 3. The basic circuit of realization of functions of ecological management in life cycle of products of the industrial enterprises

Ecological management and product life cycling should be permanent on industrial enterprises. The author offers planning and realization of ecological management functions at each stage of product life cycle. Each stage and its steps can be shared for different other sub tasks and sub functions, becoming big and direct scheme to planning and action where each department will find its functions.

The purpose of such planning is decreasing of resource using, prevention appearing waste of all kinds, planning of waste utilization of industry branch as initial raw materials for other branches, creation of environment friendly products and manufacturing, economical effect, enterprises competitiveness and sustainable environment development.

Industrial enterprises work in the conditions of aggressive external business market environment that is why a periodic estimation of activity is necessary for their successful work and development.

The estimation of management condition should be carried out constantly. For successful business and environmental activity information must be analysed from various spheres: personnel management, financial management and etc. However it is necessary to estimate results of enterprise activity, its final indexes, but also a level of the organization of managing processes that lead to these results and final indexes, to estimate a condition of financial, personnel, ecological management and other managing directions. An estimation of a management condition of an enterprise is a process of research efficiency of managing systems functioning. It is

necessary for revealing a level of organizational processes at the enterprise, a level of adequacy to the purposes, tasks and industrial activity of the enterprise.

Enterprise management is a set and interaction of managing subsystems that are directed on achievement of an overall aim of the enterprise. That is why it is necessary to check and estimate a condition and an overall performance of managing subsystems of the enterprise, the organization of work of divisions.

One of the important managing subsystems in Ukrainian industrial enterprises, alongside with, industrial, innovation, investment, strategic should become ecological management and provide productive management of industrial enterprises. It should be directed on realization of enterprises ecological and economic targets, projects and the programs developed on the basis of principles of economic efficiency and ecological validity, with maintenance of the balanced and realized functioning the enterprise in environmental system.

The basic purposes and tasks of an author's technique of an estimation of a condition of the organization of ecological management on the industrial enterprises are submitted on fig. 4.

Subject of the estimation is the condition of the organization of ecological management on industrial enterprises. The sequence of performance of an estimation of a condition of ecological management organization at industrial enterprises is submitted on fig. 5.

One of the basic moments of realization of any estimation is definition of spheres of estimation. For completeness of realization of an estimation of a condition of ecological management of the industrial enterprises, the author offers to concentrate the basic attention to the following spheres:

- * Industrial sphere
- * Personnel and communications sphere
- * Innovation sphere
- * Environmental protection activity sphere
- * Information supply sphere
- * Financing of environmental activity sphere

The estimation of influence of the industrial enterprise on natural environment, as well as an estimation of a condition of ecological management organization should cover various fields of activity of industrial enterprises.

Numbers of parameters, which characterize a condition of ecological management on an enterprise, are grouped according the spheres of estimation.

Methodological basis of an estimation of a condition of the ecological management organization is position and principles of the modern theory of constant development, rational wildlife management and preservation of the environment.

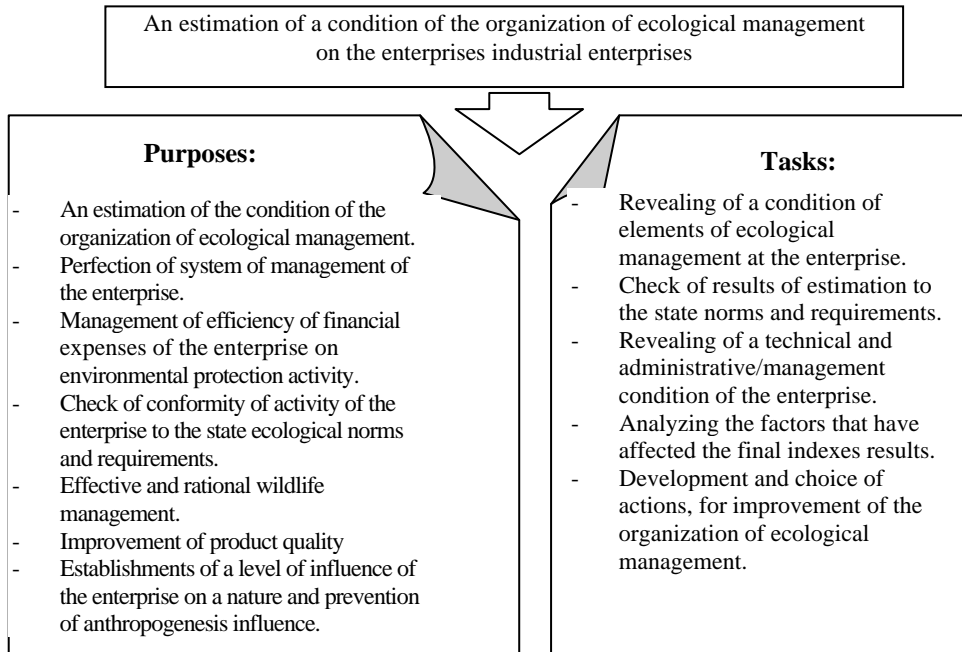


Figure 4. Purposes and tasks of an estimation of a condition of the organization of ecological management on industrial enterprises

At an estimation of a condition of the organization of ecological management methods are used: system-structural and comparative analyses, a method of the structural - logic analysis, statistical methods, a method of the financial analysis - for an estimation of a condition and prospects of development of a modern ecological policy; a method of interrogation; a method of expert estimations and other methods of scientific knowledge of economic and administrative processes.

Information base of estimation are legislative, normative and methodical materials of legislative and executive authority; the statistical data of enterprises and their periodic reports, materials of the interrogations of the personnel at the enterprise, and other sources of the information.

The estimation of a condition of the ecological management organization of industrial enterprises is offered to carry out with the help of quantitative and qualitative parameters. For the most full and authentic estimation it is necessary to use the system approach to the estimation that will provide the maximal account of spheres of activity of the enterprise, and reveal its potential opportunities. Quantitative characteristics determine completeness of use of the resources involved in environmental protection activity of the enterprise, for all spheres: industrial sphere,

spheres of information and financial maintenance, etc. Qualitative characteristics are estimated by environmental protection activity of the enterprise.

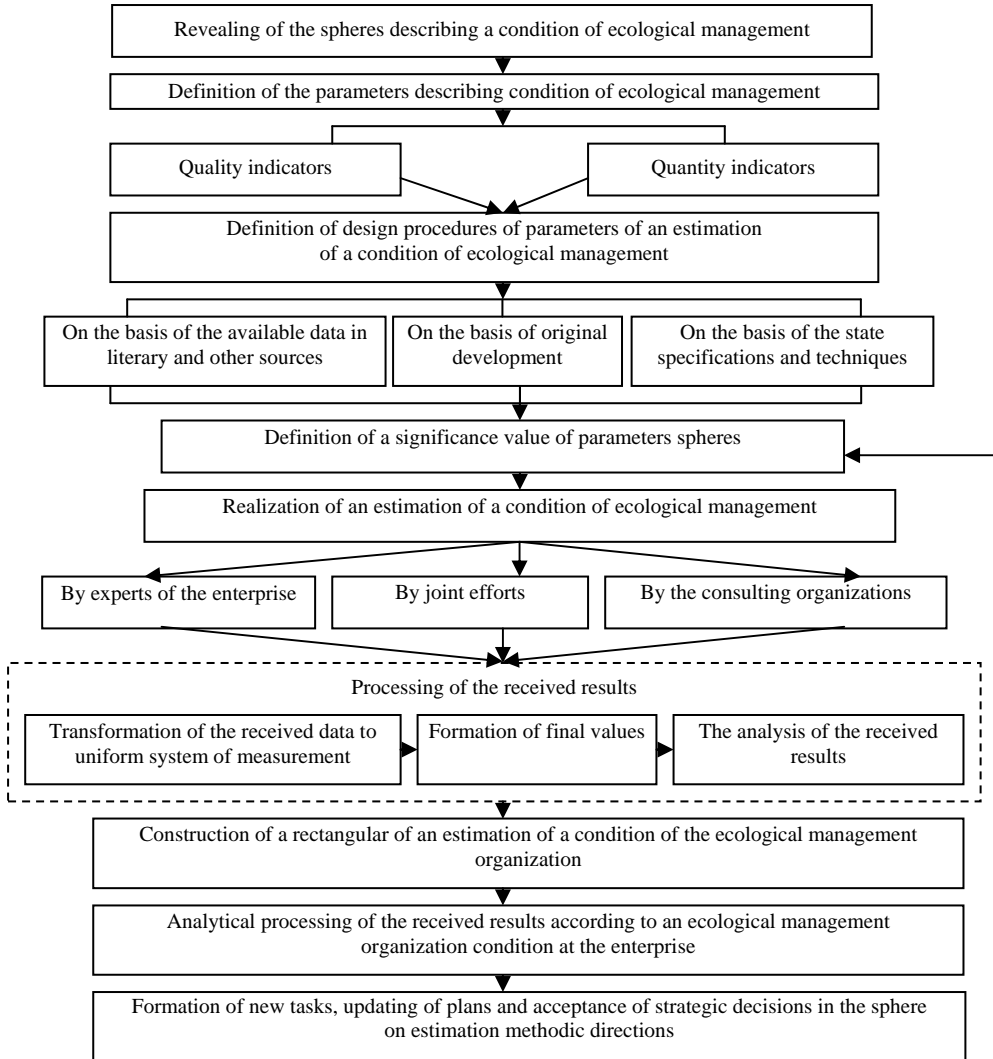


Figure 5. The sequence of performance of an estimation of a condition of ecological management organization at industrial enterprises

The estimation of a condition of ecological management at industrial enterprises is offered to be carried out with the help of the parameters established in research that pay off both formalized, and expert way. The author offers the part

of quantity indicators, for the characteristic of a condition of ecological management, for the first time. Each of the designed quantity indicators transformed in points by the appropriate methods.

After that, all parameters are resulted in uniform five-point system of measurement and average values on groups pay off. Results of the estimation can be presented as a rectangular constructed with the help of six groups-spheres of parameters. Each group is broken on five sectors of estimation from 1 up to 5 points. In practice, in the submitted rectangular, the width of sectors on groups will not be equal, in connection with inadequate influence of groups of parameters on the enterprise activity.

The width of the area of group depends on weight of the importance of each group. Evidently at the industrial enterprise it is possible to illustrate a condition of ecological management in the following geometrical space, fig. 6.

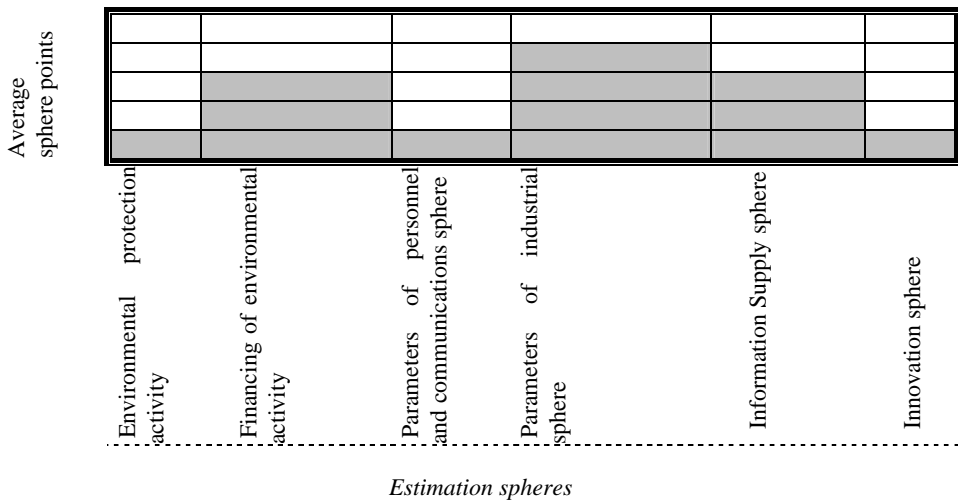


Figure 6. Example of rectangular of an estimation of a condition of the organization of ecological management at industrial enterprises

The author with the help of method of expert estimations carried out definition of the weight of importance of groups of parameters. The structure of expert group was determined by features of the enterprises, presence and a degree of participation of divisions and experts in environmental protection sphere. Results of interrogation are submitted in tab. 1.

Table 1.

Results of expert interrogation on revealing factors of the importance of groups of parameters.

| Groups of parameters of an estimation | Weight of importance of groups |
|---|--------------------------------|
| Environmental protection activity | 0,13 |
| Financing of environmental activity | 0,20 |
| Parameters of personnel and communications sphere | 0,20 |
| Parameters of industrial sphere | 0,15 |
| Information supply sphere | 0,17 |
| Innovation activity sphere | 0,16 |

Depending on the given factor of the importance the width of a field in a rectangular of estimation is determined. The condition of organization of ecological management is determined by calculation of the "area of the break". The "area of the break", is the size that calculated, as a difference between the area of an ideal condition and actual results of estimation. The ideal condition is the mathematical area of a rectangular of estimation. Results of estimation are calculated as the sum of the areas of rectangular of groups of parameters. The area of each group of parameters is calculated as multiplication of an average group estimation results and factor of the importance of group. Calculations of parameters enable to compare the total areas of rectangular on groups and the general area of an ideal rectangular. The less is value of the "area of the break", the better it is a condition of the organization of ecological management at industrial enterprise. After realization of estimation on groups, reception of the following results of an estimation of a condition of ecological management organization is possible: excellent, good, satisfactory, and unsatisfactory. Results of estimation come to light on a scale of the "area of the break", tab. 2.

Table 2.

The scale of the "area of the break".

| Area of the break, % | Level of a condition of the organization of ecological management |
|----------------------|---|
| 0-25 | excellent |
| 25,1-50 | good |
| 50,1-75 | satisfactory |
| 75,1-100 | unsatisfactory |

The rectangular of an estimation evidently shows a level of a condition of ecological management at industrial enterprise for acceptance of administrative decisions at a choice of development of the further directions, allowing to determine priorities of effective functioning of ecological management as a sub management function.

Discussion

The technique of the estimation method was approved in the enterprises of forest-based industry in Lugansk. For the test approbation of estimation method the data on activity of the forest-based industry enterprises for last year were used. In the estimation process took part 10 enterprises of different size and ownership. Results of an estimation of a condition of the ecological management on enterprises have shown, that the level of the ecological management organization is estimated as "satisfactory" and far from "excellent" one.

After the results analysis it was estimated, that the basic spheres demanding attention are: the environmental protection activity, the personnel, and the information. The current state of the ecological management differs in the large firms and SME. There are a great number of SMEs which do not fulfil regulations, and that is why the results of an estimation are not high. The reason of such SMEs position is lack of money and qualified human resources.

On the basis of the carried out estimations at the enterprises some organizational work was made. It concerned organisational changes, personnel education and training, forming enterprises environmental databases, perfection information and communication systems, products life cycle planning, waste utilisation programs development and other. Results of changes at the present time are not revealed, as has passed not enough time, and results of management not always can be revealed at once. However, the further researches of the enterprises and parameters of their activity are conducted.

The enterprises managers that participated in approbation process reflected the estimation method as new method of ecological management estimation. This method gives the opportunity to find out the lacks not only in technical sphere. Enterprises top management get information for analysis and further strategic directions. Estimation procedure is simple in use due to special computer program. This program was specially developed for the estimation process and makes the calculation faster, easier and cheaper that is important in the modern condition of enterprises.

Conclusion

The proposed instruments of ecological management organization and perfection are clear, simple in use, do not need much financial assistance and can bring fast results where it is possible. Of cause they need some organizational and financial changes in the enterprise but they are caused by necessity of environment preservation and further economical enterprises effectiveness. These instruments contribute to investigating, developing and perfection of organization of ecological management on industrial enterprises.

This approach intends for exception of anthropogenesis influence of industrial enterprises on the natural environment and health of people, prevention of ecologically dangerous failures and situations, reduction of consumption of all kinds of resources and other purposes in frameworks of environment sustainable development.

To the benefits of ecological management implementation refer: creation of more favourable conditions and additional opportunities for investments, export of goods and services, increase of shares cost of the enterprises at stock exchanges, environment cleanliness of the enterprises and their production.

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STUDY REGARDING THE PERCEPTION OF ECONOMIC FACULTY GRADUATES ABOUT THE PROFESSION AND JOB PERSPECTIVES

- Report on Research Activity done between 2004 and 2006 under the Grant at no.
36/4 Financed by CNCSIS -

ADINA LETIȚIA NEGRUȘA¹

ABSTRACT. The main purpose for this project was to identify the perceptions and attitudes of the economic higher education graduates toward the tendencies of professional development offered by educational institutions and labour market from Romania.

In order to have a real image of the actual labour market the project involved an empirical study among the employers in order to find out what are their expects about the economic profession level of development.

Based on this research we should be able to respond to the following questions: who quickly a graduate is enrolled in an organization? which are the most requested special fields in economic profile? what kind of changes will occur in this perspective of EU enlargement .

The main objective is to identify the specific elements which should be develop by economic higher education in order to improve the quality of forming process for this carrier.

Key words: perception, attitude, graduate, professional development, labor market

STUDY ABOUT THE WORK PERSPECTIVE OF ECONOMIC HIGHER EDUCATION'S GRADUATES ON THE LABOR MARKET FROM CLUJ

1. The evolution of the number of graduates and the job's offer in Cluj

The higher education offered in Cluj by ten institutions, public as well as private, has registered a meaningful development in the last 10 years, the number o scholars almost double. This tendency took place while the increase of teaching stuff is only 64%. The result was the increasing number of students per professor from 11 students in 1991 to 16, 9 students in 2003. This is of course an average obtained from all active universities and faculties, as well as the distance education system.

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Table 1.**Comparative analysis of the number of scholars and professors**

| YEAR | PROFESSORS | STUDENTS ENROLLED |
|------------------|-------------------|--------------------------|
| 1990/1991 | 2098 | 20726 |
| 1995/1996 | 2583 | 34749 |
| 2000/2001 | 3223 | 50484 |
| 2001/2002 | 3247 | 54710 |
| 2002/2003 | 3314 | 54429 |
| 2003/2004 | 3442 | 58443 |

Source: Romanian's statistic yearbook – 2002, 2003, 2004

If we talk about hiring stuff, the most important sector which absorbs the labor force in Cluj is the processing industry. Unfortunately the trend is a decreasing one and far away from 1995.

The economic specialization has been and it has remained a specialization where high-school students are applying for, and, comparing with other specialization it is noticeable that the years 2003/2004 have attracted majority of the students.

Table 2.**The evolution of the scholars on the main domains of the higher education system**

| PERIOD | ECONOMICS | TECHNIQUE | MEDICINE | JURIDIC |
|------------------|------------------|------------------|-----------------|----------------|
| 1990/1991 | 12,8 | 62,5 | 10,43 | 2,06 |
| 1995/1996 | 24,9 | 28,05 | 9,59 | 12,83 |
| 2000/2001 | 24,8 | 25,94 | 6,19 | 12,91 |
| 2001/2002 | 25 | 25,68 | 5,63 | 11,87 |
| 2002/2003 | 26,5 | 25,58 | 5,44 | 10,64 |
| 2003/2004 | 27,7 | 25,45 | 5,32 | 9,76 |

Source: Romanian's statistic yearbook – 2002, 2003, 2004

Reviewing the tendency of Cluj economy in the last 10 years reveals that the most important and with a huge impact in the work forces market is the industry. First of all we analyze the evolution of active enterprises number in the regional economy and resulted that the Cluj economy is specialized on manufacturing with the following fields of interest: food manufacturing, light industry, putlog and machine/building industry.

A special meaningful is the increasing of the construction activity with 58%, becoming an important factor for the development of the entire area. This tendency reflects also an important flow of investments concerning the industry infrastructure and the increasing demand for real estate.

Regarding the structure of Cluj economy by size class, almost 87% of the active units are micro enterprises, with less then 10 employees and the number of macro enterprises with more then 250 employees is just 0,57% from the total.

Table 3.

The evolution of active enterprises from different economic fields of the regional economy
- number -

| CLUJ AREA ECONOMIC SECTION | 2000* | 2002 | 2003 |
|--|--------------|--------------|--------------|
| Total | 13604 | 14374 | 16304 |
| Mining and quarrying | 28 | 32 | 41 |
| Manufacturing | 2236 | 2415 | 2442 |
| Electric and thermal energy, gas and water | 19 | 19 | 25 |
| Construction | 675 | 847 | 1066 |
| Wholesale and retail | 7557 | 7004 | 7461 |
| Hotels and restaurants | 411 | 563 | 674 |
| Transport, storage and communications | 744 | 1049 | 1178 |
| Real estate transactions, renting and service activities mainly rendered to enterprises. | 1198 | 1931 | 2736 |
| Education | 34 | 40 | 42 |
| Health and social assistance | 101 | 136 | 191 |
| Other activities of collective, social and personal services | 355 | 338 | 448 |

Source: Romanian's statistic yearbook – 2002, 2003, 2004

We took in the analysis, on the other hand, the evolution of turnover for the active enterprises, in order to identify which are the promising sectors, already developed and with an important impact on the work forces market. The most important sector is the manufacturing with an turnover mean per enterprise about 13,88 billion lei, in the second position is transport, storage and communications (with turnover mean about 9,49) and the third position came wholesale and retail (7,23).

Table 4.

The evolution of the economic sectors based on yearly turnover
- Thou RON -

| ECONOMIC SECTION | 2000 | 2002 | 2003 |
|---|---------------|---------------|----------------|
| Total Cluj area | 4647,3 | 9210,6 | 12279,6 |
| Mining and quarrying | 56,2 | 67,7 | 86,6 |
| Manufacturing | 1242,7 | 2588,1 | 3391,1 |
| Electric and thermal energy, gas and water | 322,4 | 615,4 | 746,1 |
| Construction | 351,3 | 685,9 | 802,3 |
| Wholesale and retail | 2257,8 | 4009,5 | 5398,1 |
| Hotels and restaurants | 49,3 | 98,5 | 134,9 |
| Transport, storage and communications | 295,5 | 725,3 | 1118,8 |
| Real estate transactions, renting and service activities mainly rendered to enterprises | 69,3 | 340,5 | 482,8 |
| Education | | 2,3 | 3,7 |
| Health and social assistance | | 12,0 | 16,7 |
| Other activities of collective, social and personal services | 87,8 | 65,4 | 98,5 |

Source: Romanian's statistic yearbook – 2002, 2003, 2004

For the regional economy in the last 5 years it can be remarked an increasing tendency, but it could not reached the top level from 1995. The increasing average number of employees from one year to another is about 1, 2%, this fact happens in period with a yearly decreasing number of employees in the industry and construction. In conclusion the service sector tend to be more productive, in a stage of development, determined a development of the work forces for this sector.

Table 5.**The evolution of the economic sector based on the number of employees**

| ECONOMIC SECTION | 1995 | 2000 | 2002 | 2003 |
|---|---------------|---------------|---------------|---------------|
| Total Cluj area | 210913 | 158518 | 162454 | 164867 |
| Mining and quarrying | 4097 | 2135 | 1828 | 1820 |
| Manufacturing | 95101 | 59999 | 62651 | 60507 |
| Electric and thermal energy, gas and water | 6475 | 5940 | 5392 | 4983 |
| Construction | 14683 | 14507 | 13034 | 13822 |
| Wholesale and retail | 25801 | 18416 | 23923 | 25388 |
| Hotels and restaurants | 3633 | 3287 | 2121 | 3952 |
| Transport, storage and communications | 18611 | 14114 | 13457 | 13981 |
| Real estate transactions, renting and service activities mainly rendered to enterprises | 7363 | 5790 | 6404 | 6672 |
| Education | 19242 | 19415 | 18356 | 17776 |
| Health and social assistance | 13098 | 12128 | 12413 | 12748 |
| Other activities of collective, social and personal services | 2809 | 2787 | 2875 | 3218 |

Source: Romanian's statistic yearbook – 2002, 2003, 2004

In this economic environment we intended analyze the connection between the work forces market and the economic higher education for evaluating the perspective of hiring young graduates.

In the work forces market from Romania the unemployed rate is more sever for the young people. This fact can be explained based on the behavior of the young people toward job. If the people with some experience in working places and aged became in general in the unemployed sector due to firing, for the young people the major motive for which they became unemployed is failing in reaching the first job. Because they try to get a job adequate to their level of knowledge and education the period looking for the job increasing. In this situation they increase the unemployed rate. Only when they consider that for their specialization there are

few opportunities they accept job reorientation. The difficulties rises in the Romanian economy determined a hard and slowly employment for the young graduate.

Based on a direct research, accomplish by SWOT Consulting, over a representative pattern of employers from the entire country, which took place between 14-20 December 2004, resulted that almost 67% from the employers find out that the young graduates' theoretical knowledge do not correspond with their expectations. The conclusion of this study was that the number of graduates is not correlated with the need of work forces.

Follow up we intend to analyze more the correlation problem in Cluj area, because due to the fact that Cluj is a university center town, the companies from this area are privileged. For the cluj employment market, the top level was reached in 2002 when the number of job offers raised to 951. In May 2004 the top level rises to 956. From the fluctuation diagram result that in this last 4 years there is a trend of very slow increasing (2001 – 625, 2002 – 645, 2003 – 819, 2004 – 924), but without an important development of the regional economy the job number offers to young graduates could not be meaningful.

The employment market for the higher education graduates had the following features:

- January and February are characterized by a massive integration of the last graduates without a job
- The period between March and August is characterized by a small interest from the future graduates for a job
- September –November period is characterized by an assault of the market by the graduates

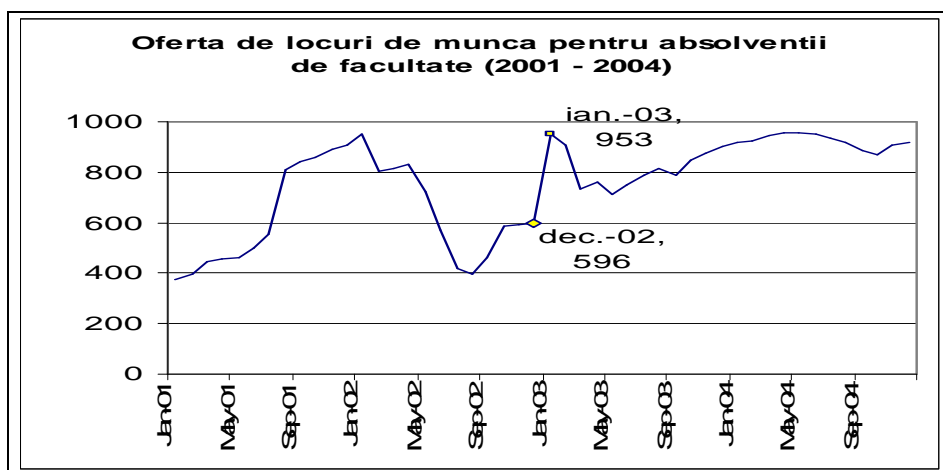


Figure1. The evolution of job offers for higher education graduates in Cluj

The reason for what we consider that is a huge gap between the demand and the offer in the employment market of Cluj is determined also by the unemployment rate for people with university degree. From 2001 when the unemployment rate for higher education graduates was about 4% from the total, this rate increasing annually reached a pick in 2003 at 10% which follow up in the 2004. The biggest problem occurs for the graduates aged higher then 25 years, for which appeared an unemployment period for short time.

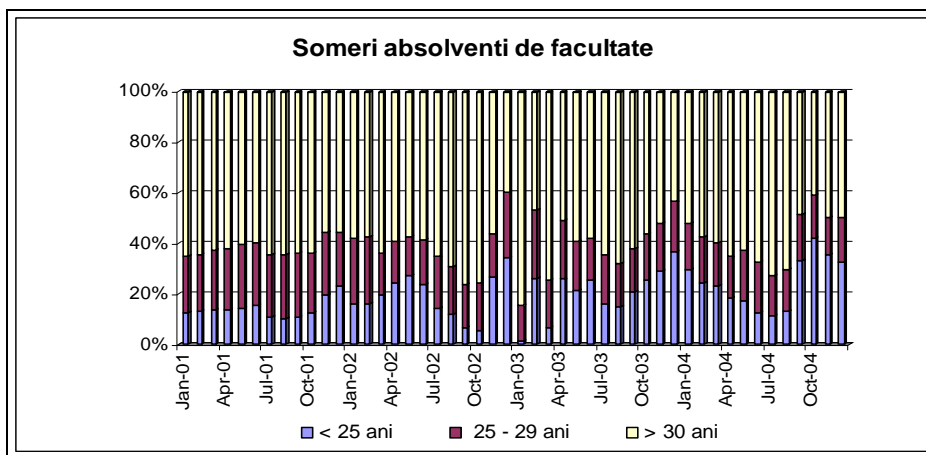


Figure 2. The evolution of unemployment rate for higher education graduates in Cluj

The main motives for which the employers prefer people with some work experience instead of young higher education graduates are:

- The minimum average wage is to high
- The lack of time for training
- The cost for training
- The adaptation process to the job task is easier for people with experience
- The training process at the job could burden the other activities

2. Study about the employer's behavior in the process of recruiting, selecting and hiring of economic higher education graduates

Presenting the methodology and the indicators.

The purpose of the research was to identify some characteristics of the employers in Cluj as far as the demand of the economic graduates for jobs with similar tasks is concerned. The analyses have been done based on the data collected directly as well as the report of the local public administration. Within the direct research, we have chosen 62 companies from Cluj that have a potential of development, from the private as well as the public sector.

The conceptual frame

We have started from the hypothesis that the perspective of finding a job for the young graduates with economics profile mainly depends on the perception on the employers as far as the individual potential is concerned, as well as the ability of the higher education institution to offer them a rigorous training.

Premises

We have studied the following hypothesis concerning the labor market in Cluj:

- There is a constant trend of the demand for employees with economic specialization
- Employers use a standardized set of selection criteria that they generally apply
- There is no interest from organization on training and professional improvement of the employees within the structures of the higher economic education system.

Instruments used for the research

We have used the investigation because it insures the description, comparison or explanation of the opinions, attitudes and behaviors, motivations, characteristics of the social or organizational environment. By using the investigation we can obtain answers to questions such as: When? What? Where? How much? Etc.

The results obtained can also be representative for a bigger population than the one investigated through the interview. As an instrument of collecting data we have chosen the questionnaire.

Data on the sample

The sample of this research is characterized by the following:

Table 6.

The structure of the sample by the property type

| TYPE OF PROPERTY | FREQUENCY | PERCENTAGES |
|-------------------------|------------------|--------------------|
| private | 48 | 84,2 |
| mixt | 2 | 3,5 |
| state | 7 | 12,3 |

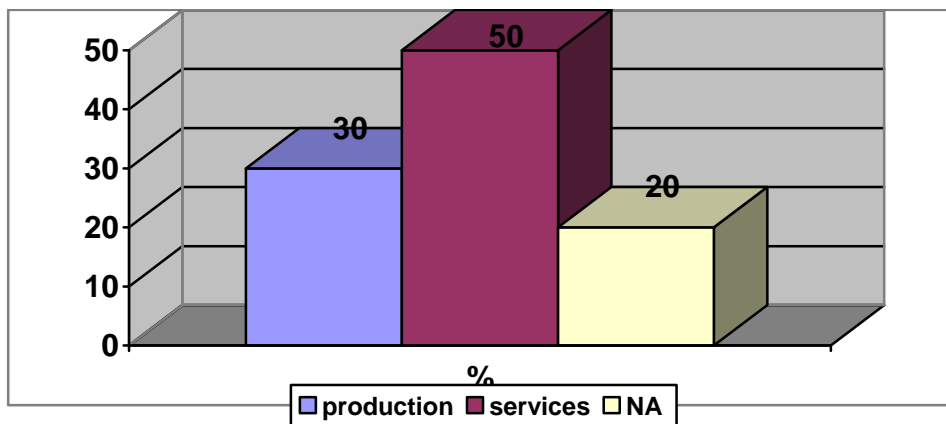


Figure 3. Structure of the sample by the main domain of activity

Results obtained

First of all we have been interested by the number of economists that are hired in the organizations that he has investigated. Even if the weight of SME is only half from our sample, the bigger percentage of economists frames within the interval 0-5 employees. Based on responses got we divided the numbers of employees in 5 intervals, in order to identify also an average of this number into the companies from Cluj.

Table 7.

The number of employees with economic specialization in the firms that were investigated

| Intervals | Frequency | Percentage |
|-----------|-----------|------------|
| 0-5 | 26 | 45,6 |
| 5-10 | 9 | 15,78 |
| 10-15 | 13 | 22,8 |
| 15-20 | 2 | 3,5 |
| > 20 | 7 | 12,2 |

Related to the dates collected results an average number of economist employees about 8 and we consider this promising for the young graduates. Knowing this our intention was to verify the correlation with the number of job with economic specifications or tasks. Based on responses the correlations between the number of employee and the number of job with economic specification was verifying, so exists a relation between the variables. This means a balanced employment process.

Table 8.**The correlation between the number of employees and the number of jobs**

- % -

| NUMBER OF JOBS NUMBER OF EMPLOYEES | 0-5 | 5-10 | 10-15 | 15-20 | > 20 | TOTAL |
|---|--------------|-------------|--------------|--------------|----------------|-----------------|
| 0-5 | 31,5 | 12,28 | 1,7 | 0 | 0 | 45,6 |
| 5-10 | 3,5 | 7,01 | 0 | 0 | 5,26 | 15,7 |
| 10-15 | 7,01 | 7,01 | 5,26 | 0 | 3,5 | 22,8 |
| 15-20 | 0 | 0 | 0 | 3,5 | 0 | 3,5 |
| > 20 | 3,5 | 0 | 0 | 1,7 | 7,01 | 12,2 |
| Total | 45,51 | 26,3 | 6,96 | 5,2 | 15,77 | 100 (57) |

Results also an relative higher percent (22.72) of companies where the number of economist employees is higher then the number of jobs with economic tasks, and this means that inside of this companies people with economic background and education were employed on jobs which required others tasks or activities then their qualifications.

Another important point that has been proposed within the research was to find out how many young graduates have been employed on economic jobs. This, we have discovered that in 38.5% of the cases there no young graduates. This indicates a first argument that within the Cluj market there is a tendency of saturation of the demand for young economists.

Table 9.**The number of young higher education graduates employed by companies questioned**

| Number of young higher education graduates employed | Absolute frequency | Relative frequency |
|--|-------------------------------|-------------------------------|
| 0 | 22 | 38,5 |
| 1- 5 | 24 | 42,10 |
| 6 – 10 | 9 | 15,7 |
| > 10 | 2 | 3,5 |

Follow up with a comparative analysis between the establishment year of the companies and the rate of young higher education graduates employed results that the most active in this process were the new companies which start their activities in 2000. This means a strong correlation between the economic development and rate of unemployment. The new companies try to create a work team in short time and with less outlay.

Our intention was also to evaluate the perception of the employers related to the degree of qualification accomplished in the educational program by the graduates, based on their abilities in fulfilling the job tasks. Using the Likert evaluation

values for this variable results a median value around 2.6 and we consider this as a good value which characterized the higher education programs solid and performance.

This result is indurate by the 88% of the employers which consider that is a strong relationship between the level of qualification in the education program and the level of performance in the work place. Due to this result we are right in the affirmation that the employers began to be more retentive of level qualification and performance graduates in the education degree, because this is the first sign regarding to the work performance. We have also tried to check this result by analyzing the correlation between the appreciations of the training of the connection with the performance at the working place, the hypothesis being verified.

Table 10.**Correlation between the valuation of educational performance and work performance**

- % -

| | VERY GOOD | GOOD | AVERAGE | POOR | VERY POOR | TOTAL |
|--------------|------------------|-------------|----------------|-------------|------------------|--------------|
| Yes | 8,7 | 57,89 | 19,29 | 3,5 | 0 | 89,3 |
| No | 0 | 3,5 | 3,5 | 0 | 3,5 | 10,5 |
| Total | 8,7 | 61,4 | 22,8 | 3,5 | 3,5 | |

In the following stage we concentrate on the major deficiencies observed by the employers to the young graduates in the work process. Related to this finding we identify some unexpected results which offer a primary vision about the sector or activities from Romanian universities which should be improved.

First of all it was pointed out the lack of practical knowledge and practical skills. Next to this are the integration problems of young graduates into the companies and their adaptation process to the tasks' jobs. We interpreted this unexpected result as a proof of the fact that the education system forms young people with a low flexibility, which usually lose themselves in front of the simple activities and tasks that they have to accomplish and even more, they can not communicate very easily with the team. If the lack of practical skills is deficient of the higher education systems the communication and adaptation problems are deficient of the forming process. We can thus conclude that the training methods used do not determine the flexibility and development of a creative thinking, but on the contrary diminish the freedom of thinking to certain stereotypes which lead to rigidity.

Table 11.**The major deficiencies observed to the young higher education graduates**

| Deficient | Absolute frequency | Relative frequency |
|----------------------------|---------------------------|---------------------------|
| Lack of practical skills | 55 | 96,49 |
| Weak theoretical knowledge | 2 | 3,5 |
| Adaptation problems | 13 | 22,8 |
| Communication problems | 7 | 12,28 |
| Integration into the team | 13 | 22,8 |

To the question: do you consider that the Romanian education system can offer you the perfect employee, 77% answered no. As a conclusion there are some weaknesses in the graduates preparation that mainly result from the low cooperation between universities and business representatives, who have deepened the difference between the way of training and what is used as abilities and knowledge.

Even so, the perspective of economist in the companies view is favorable and gives hope to young graduates that in a short time they will be hired in the domains that they have prepared for. This thing is underlined by a percentage of 61 of employers who need economists for periods of 2 years. Being asked what are the main domains in which companies need economists we have obtained:

Table 12.**The main specializations required by the companies investigated for young graduates**

| Specialization | Absolute frequency | Relative frequency |
|-----------------------|---------------------------|---------------------------|
| Management | 20 | 35 |
| Marketing | 29 | 50 |
| Finance | 21 | 36,8 |
| Accounting | 37 | 64,9 |
| Economic | 15 | 26,3 |

The two most needed specializations wanted by employers prove that companies are interested right now only by two major problems: the correct bookkeeping and administration of resources and the relationships with the market, or building up a certain image.

We also proposed, about hiring on jobs with economic attributions, to identify and classify the criteria that the employers apply. So, based on the relative frequencies obtained for each criterion we have calculated a balanced average with a score from 1 to 7 for each hierarchical level. Thus, the hierarchical grating that has been used was from 1 –very important to 7 – irrelevant, obtaining the following scores: 1- 10 points, 1 – 8 points, 3- 6 points, 4- 4 points, 5- 2 points, 6- 1 points, 7- 0 points.

As a conclusion, employers are firstly interested in the domain of preparation, specialization, but this does not insure a definitive advantage at hiring, practically, graduates need to consider as competitors on the labor market all the people who have a university diploma. Even if subsequently is indicated as a criteria, experience comes in front of personal qualities or abilities that the graduates has.

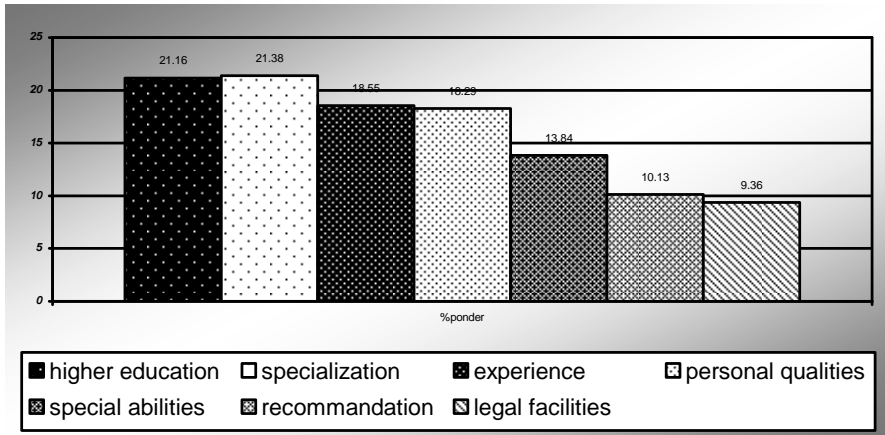


Figure 4. The hierarchy of the main characteristics required by employers for young graduates

Within the study of research, based on the results we can say that the proposed hypothesis have been confirmed and there is indeed a constant tendency of the demand for the profession of economist which on the background of an exponential increase of the offer becomes insufficient. There is also a strong connection between the economic increase and development of an area and the increase of the absorption of graduates on the labor market. Thus, as a result of the tendencies that are on the labor market and job's market, a resear of the principles of preparing the young economic graduates is required, in order to insure a level of development adjusted to the requirements of the employers.

3. Study about the Romanian higher education graduate's perception over the quality of this process.

Presenting the methodology and the indicators.

The research purpose is to identify the perception of higher education's perception about the economist profession in the actual labor force market and the role of education process in preparing them for the job tasks.

The conceptual study frame

The study was conducted on 70 graduate's students from economic faculties from Cluj-Napoca. We focused on 3 Faculties from Babes-Bolyai University with economic profile: Economic Sciences Faculty, Faculty of Business and European Studies Faculty.

We start from the idea that the economic profile in higher education continue to attract students because of the favorable work perspective in the market. The graduates are willing to get based on education process practical knowledge and capabilities.

Premises

The basic assumption regarding the following ideas:

- The economic profile still it is preferred by the students because of the labor force market
- The demand for economists in the labor force market starts to decreasing
- The competition among the graduates with economic degree became harsh
- The main characteristics of the effectiveness of higher education perceived by students are:

Instruments used for the research

This study utilized data from one data collection process focusing on the graduates from 2004-2005. Data were collected using an established survey instrument that requests detailed information organized in 14 questions. Through this structured questionnaire the 70 graduates students developed answers around questions like: perception of the demand for the economic degree, which are the most important criteria's applied by employers in the job selection process, if higher education help them to find an appropriate job, or if the knowledge share in the education process help them to face to job tasks and abilities.

The instrument was constructed so that subjects could choose one alternative or maximum two, depending on our wish, or to evaluate the degree on a percentage bases. The answers were analyzed with some statistical tools provided by the SPSS statistical method.

Data on the sample

The following data characterized the sample of graduates:

Types of faculty:

- ✓ 44% - from Faculty of Business
- ✓ 32% - from European Studies Faculty
- ✓ 24% - from Economic Sciences Faculty

More than 73% from the sample are represented by female, and the average age of graduation is around 23.8.

62% from the graduates lived in an urban area and 32% already had in the moment of graduation another diploma from other university.

Results obtained

In first part of the research we focused on the perspective of economist profession. We find out that almost 54% from the sample subjects if they had to choose now a faculty to enroll straightens to the economic degree. This means that in nowadays environment the economic specialization still offer the powerful opportunities in the Romanian labor market. The result is in a total correlation with the statistical data showed above. Also the idea is indurate by the general perception of subjects that the Romanian economy need of specialist with economic degree for development (83%).

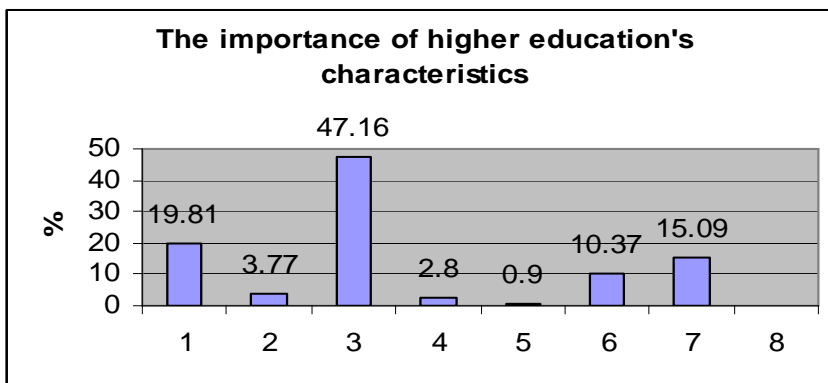
In the moment of graduation almost 60% of the subjects examine in the research say that they are employed in a business organization. This signs the general tendency that students try to get a job before to get the diploma even if this job is not appropriate for their qualifications. Students and graduates believe that finding a job before graduation consist of advantages in the labor market.

The competition in getting a job it is evaluated as stronger by a high ponders of the subjects, almost 67%. So the graduates are prepared to confront with others and they expect to have some problem in hiring process. These problems get worsen in the last period of time and it was not surprising that almost 70% from the sample graduates, asked if they intend to immigrate in a foreign country, the answer was favorable.

In order to find out the graduates opinion about an ideal higher education system we addresses the following question: Select from the following the most important, 2 characteristics regarding the higher education process. Based on this resulted that the most important features for higher education should be the practical knowledge transfer to the students, the novelty of them and the endowment.

These characteristics reflect the expectations of the students from higher education system what are and reflect their perception in correlation with the requirements get from the employers. Because the first two characteristics are related with the quality of professors result that the quality of the education process is a dependent value of the capacities, abilities and qualifications of the teaching staff.

In general the main competences correlated with a good professor refer to: good relationship with students, dedication to the education tasks, morale qualities, practical and education experience, exigency.



- 1- the novelty of knowledge
- 2- the volume of information
- 3- the practical knowledge
- 4- the teaching process model

- 5- the examination model
- 6- the student-professor relationship
- 7 - the endowment

Figure 5. Higher education's characteristics

Starting from these results we intended to evaluate these characteristics for the economic higher education from Cluj-Napoca institutions. In order to do that we required to graduates to evaluate on a percentage scale their perception and we identify the following results.

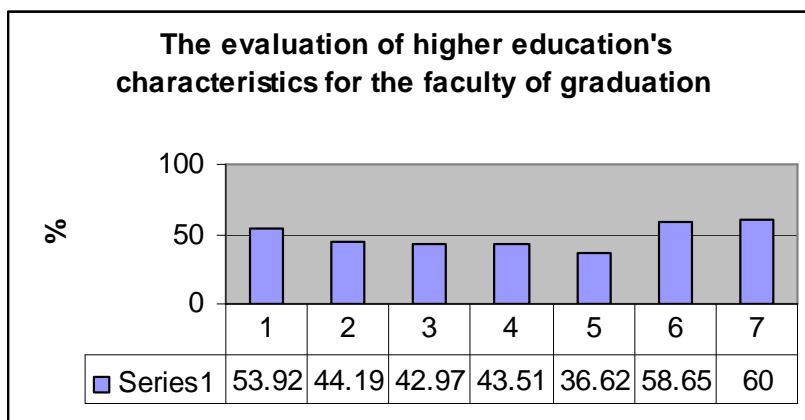


Figure 6. The evaluation characteristics results for the faculty of graduation

We conclude that the novelty of knowledge, the student-professor relationship and the endowment occupy a good position in the graduate's perception of economic faculties from Cluj. The 60% average for the endowment reveals that the economic faculties identify the importance role of books, computers, and presentations techniques in the quality increasing of education process and tried to make some improvement in this sector. The high percent of student-professor relationship evaluation bring us the idea that the professors are interested in maintaining a close and deep forming process of the students in the educational process, they are dedicated to accomplish their tasks with good results and they try to collaborate with the students in the knowledge transfer process.

In correlation with the importance of higher education's characteristic we consider that only the novelty of knowledge benefits of a good perception from the graduates point of view. This result suggest that the economic faculties adapted their curricula to the new challenges came on in the business and economic environment and developed the specializations and domains required by the employers in the work force market. Also we consider that the professor bring in their courses and books the most important, actual and new problems, concepts and information identified in the Romanian market.

Based on these perceptions the graduates evaluate the grade in which they consider that the knowledge obtaining in the education process will help them in accomplish the job tasks. The result, on a percentage scale, was 48, which reflect a

good average taking in account the courses ponder with theoretical background, like macro economy, micro economy, applied mathematical methods, economic history etc.

Teachers should share their knowledge and understanding in discussion only to help students to gain a personal and critical perspective on what is learned, not to show off in front of them. Based on the graduates experience in the higher education system we were interested in identifying the weaknesses percept by them.

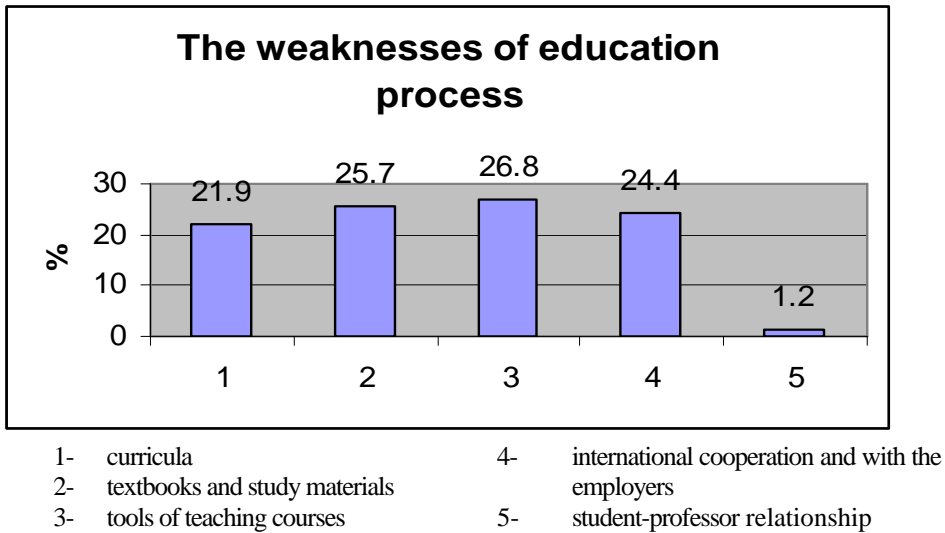


Figure 7. The weaknesses percept

The graduates indicate in the first two positions the tools and techniques applied in the teaching process and the content of the textbooks and study materials. We consider that result as a weakness process of forming effective teaching performance to the professors. The main problem with this deficient is the dependency of applying improvement methods on personal perception. In general the Romanian universities adopted a system which delivered individual evaluation done by the students of their educational activities and now based on this system every professor has a feedback from his/her students. The system is not complete because its lacks in a general evaluation of the study and the recommended ways of skills improvement. Also we consider that these studies done on the students should lead to specific goals organizing on 4 categories: teaching ability, professional competence, interpersonal relationship and personality.

Conclusions

Based on the results from this study our conclusions refer to the following ideas:

- ⇒ the economic degree still is the first choice for enrollment in the higher education
- ⇒ students believe that a diploma achieved in a economic faculty could help them in finding a good job
- ⇒ the competition in labor force market increasing and give advantages to employers in attracting good capacities and knowledge
- ⇒ students believe that a work experience along the period of higher education process could be a good start for being employed
- ⇒ the most important weaknesses identified by graduates are: tools and methods of teaching process and the content of textbooks or study materials
- ⇒ the students appreciate as important for higher education system the novelty of the knowledge share in the process and the practical characteristics of the its
- ⇒ the graduates are satisfied by the novelty level of the knowledge and information share but the examination model and practical characteristics seems to be inappropriate

In conclusion the Romanian higher education has to apply the reform started in this sector not only with regulation and curricula changes but also with the opportunities offer to the staff in order to become professionals in teaching and forming activities. This could improve the quality of the education process because the general attitude of people is to place in the center of the educational systems, responsible for the good performance of the students, the professor.

RISK MANAGEMENT SOLUTIONS FOR FLOOD AND EARTHQUAKE CATASTROPHES IN ROMANIA

MARIUS GAVRILETEA¹

ABSTRACT. Most countries in the world are suffering from natural disasters caused by floods, earthquake, tornado and even tsunami. The developed countries have efficient techniques of covering such tragic events, but also the damages and losses are huge. A delicate problem appears when the catastrophes occur in a less developed country – where the risk transfer mechanisms aren't known or applied by local governments. One reason of missing such a protection plan is the lack of financial resources from the people. In this paper we will both a theoretical and practical analysis of the situation that exist in Romania, and the steps that Romanian Govern intend to take, in order to decrease the exceptional expenses from the national budget – cause by natural disasters.

Keywords: earthquake, floods, Insurance, risk management, compulsory

1. INTRODUCTION

Nowadays globalization is certainly one of the hottest issues in relation to world economy, politics, culture, and society. As an evolution of this phenomena's, the insurance legislation is trying to be the same with the European union legislation, so there are serious concerns about the compulsory character of home property insurance against the catastrophic risks. The transformations from the last 5 years from the labour market show that insurance industry has a big numbers of companies, which knew a high rhythm of development in the last years and will have the same previsions of growth for the future

2. NATURAL CATASTROPHES IN THE WORLD

To demonstrate the necessity of such insurance, we show that on international level there is a big concern about the catastrophic risks. Is very well known that some risks cannot be prevented (Tsunami in December 2004). So, there are lots of experts, specialized companies, non-profit organizations, governmental organizations witch allocate funds to prevent if is possible the apparition of this events and to decrease the negative effects in case that catastrophic risks appear.

In the most areas (regions) of earth the most affected population are the people from village, which also have low (small) financial resources and are in generally poor. If we want to make a study of the situation from our country, we can notice from the

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below information that this kind of people are also the most affected by natural catastrophe in Romania.

World wide there are numerous statistics about floods and we can notice that even the most developed countries – USA for example, are dealing with the same problem. When hurricanes and tornadoes appear, with all the protection measures taken, the losses are huge. The worst losses in USA are:

- 1- Hurricane Andrew 21,542 mil. USD, in 2003
- 2 - Hurricane Ivan 10,000 mil. USD, in 2004
- 3 - Hurricane Charley 8,000 mil. USD, in 2003

In the same statistic are the effects of Northridge Earthquake in USA with 17.843 million USD. Also in Japan – Tornado Mireille caused losses of 7.831 million USD in 1991, in France and Swiss Lothar Snow Storm caused losses of 6.500 million USD in 1999.

Because of the high temperature from the last years our country is exposing in the future to a catastrophic floods. A research of European Agency of Environment shows that Germany, Hungary, Romania and Switzerland were the worst affected of flood area in the last years. For the next future, the agency is estimating a growing of the number of flood, especially in the countries mentioned above. The conclusions of the study, presented by the European Agency in this spring don't show very good news for Romania (are ominous). Climatically changes and growing in intensity of the floods will determine an overflow of the rivers and high floods, especially in the centre, north and north east of Europe. European specialists mentioned in the study the climate fluctuation and the floods from Europe- are foreseeing an increase of the number of local floods, devastating floods, short time floods, which will determined a high number of victims.

Changes in precipitations conditions - the tendency of the frequency and intensity of floods will be very close by the modifications in precipitations conditions, by overflow and by the climatically changes on the long term. The annual precipitations grow in the centre and the north of Europe with 10-40% in 1999-2000 and in the meantime in the south of Europe they decrease with 20%. The model of seasonal modifications show that in the winter time, the south and east of Europe become more dry, and in the meantime in many regions of north west of Europe become more abundantly in precipitations. Prognosis indicates increases of annual precipitations in north of Europe and summers more abundantly in precipitations in the most part of Europe.

The study shows that Europe had significant increase of temperature in the last 100 years, especially in the last decade. The warmest year in Europe in this period was 2003.

The waves of heat, which pass, throw Europe in august 2003 cause 35000 victims. The consequence of this heat was felt more in the north west of Russia an Iberia.

We can estimate that until 2070 the overflow will decrease with 50% in south and south east of Europe and will increase with over 50 % ore more in many oft the regions from north or north east of Europe.

One thousand serious floods in 6 years. From the analysis of the international data base, referring to disasters shows that floods represent 43% from totality of disasters between 1998 -2002. In Europe record in this period, 100 serious floods which caused 700 victims. Also, floods, determined the migration of approx. half million of people and economic damage about approx. 25 billion euro.

Floods covered an estimated area of 1 million kilometres. About 1.5% of Europe population was affected. Through January until December 2002, were 15 important floods in Austria, Czech Republic, Germany, Hungary and Russia with approx. 250 victims and more then 1 million people affected.

The extreme phenomenon will become more frequent. Dr Roxana Bojariu, from Environmental Changes Department of INMH² declared that extreme phenomenon like storms, high precipitations; drought will become more frequent.

The global climatic system is trying to find a balance after the batch of ozone was affected and after the extreme phenomenon was more frequent. This will have different results all aver the world. In our country, for example alternate periods of high precipitations and low temperature with hot days, and in the meantime in Portugal or Spain there are terrible drought.

3. SOLUTIONS FOR COVERING NATURAL CATASTROPHES IN ROMANIA

Extrapolating these things in Romania, we notice that in this country there are also violent and catastrophic natural events.

In Romania, in 2005 Teleorman district with over than 5000 houses awash, is the most affected district from the floods (4728 houses were affected, 291 were totally destroyed, and other 1502 has serious troubles.) The gashing waters killed more than 10000 of animal and birds, inundate 6133 houses, 31 schools, hospitals, or administrative buildings, damaged 66 bridges and destroyed over 6 kilometres of national roads and 107 kilometres of district roads.

In 12.04.2006 after a year from the devastating floods in Banat, the people are confronting again with the fury of the water. Some houses from Gataia and Sculea were affected by water, at the foundation (basement) level. In total more than 140 houses were flooded in Timis district, 340 houses in Caras Severin (especially in Ghertenis). The national road 58B was bumped and the cereals were destroyed in hundreds of hectares.

Also 40.000 land hectares were covered by Danube and the losses are over 2.5 millions EUR. The worst problems appeared in Dolj district where 700 houses from Rast village were flooded and 115 completely destroyed.

² Romanian National Institute for Meteorology

The national Govern set up a Risk Management Committee that oversees the execution of the five-step risk management process:

- First stage: identify the risks. The nature evolution involves some degree of risk or uncertainty about future events. The first step in managing those risks is to identify them. No matter how probable or improbable a risk may seem, the employees of this Committee list it during the first stage of the risk management process.

- The Second stage: Evaluate and prioritize risk. Under step two the committee assesses the probability of each risk becoming reality and estimates the possible effect and cost for the national budget / or for individuals. The specialists must look at the past natural catastrophes in developing probability and cost estimates. Also consider the possible public reaction to an adverse event. Priority areas of concern will include those risks that are most likely to occur and are expensive when they do happen. Lower priority risks are those that seldom occur and are not likely to cost as much when they do happen.

- Managing the risks: The Govern must decide how to manage catastrophic risks, using risk management strategies. The risk management committee's next task is to develop a written plan. The plan outlines how Romania will manage its major risks. The plan describes the suggested strategy, or combination of strategies. The basic strategies for controlling risk are:

- a) Risk Avoidance
- b) Modification of some conditions
- c) Risk Retention. Accept all or a part of the natural catastrophic risk in a special budget
- d) Risk Sharing. Consider sharing the risk with another organization – pool of insurance, reinsurance

- Implement risk management plan. Once the appropriate governing body reviewed the plan, the Romanian Govern should formally adopt and implement it.

- The last step: Review and revise the plan as needed. The nature of Commission requires that risk management strategies be revisited at least annually. The committee should continuously evaluate the risk management plan in order to maintain it relevant, comprehensive and effective.

All these steps are related to a Flood risk management that includes the use of flood defenses, where appropriate, but also recognizes that more 'managed flooding' is essential to meeting goals for biodiversity and to sustain good ecological status in river and coastal systems. In future, society will come to appreciate and value the positive benefits of the river and coastal 'flood pulses', while simultaneously developing improved coping strategies that will make communities resilient to the negative impacts of flooding. However, the success of this approach depends on integrating: enhanced defenses and warning systems with improved understanding of the river system and better governance, emergency planning and disaster management actions. In order to reach these aspects the local government must:

- Establishing a program of “cutting edge” research to enhance flood risk management practice worldwide;
- Short-term delivery of tools and techniques to support short-term improvements in flood risk management in the Romania;
- Development and training of the next generation of flood risk management professionals through their involvement in and exposure to the consortium’s research.

In Romania – using National Statistic Institute report, from the building built before 1940, just 3% are insured, and the ones built after 1989 just 7% are insured. From June 2004 to May 2005 3% from the houses suffered losses, most of the losses were caused by floods (52.8%), robbery and theft (17%). The main reason (that generates the refuse to buy a homeowner insurance) mentioned by the people is the lack of sufficient money. The part of these people is 67%.

The survey was done on 10,920 homeowners, 91.7% answered to the questionnaire, and the error is +/- 3%. There must be mentioned that, after this survey came a natural disaster in Romania cause by floods.

The year 2005 may be considered the year of floods catastrophes; catastrophes increased by the lack of insurances to cover theirs effects. At the end of May 2005 Insurance Supervising Commission (CSA) proposed to the Govern a new project of law to decide about the compulsory character of homeowner insurance, taking into account every area risks exposure.

Insurance enables householders and business to minimize the cost of damage arising from unforeseeable events that may affect their property. Insurers are able to provide financial support in circumstances where the peril is occasional, affects a limited proportion of the population at any one time, and where the cost can both be predicted and adequately covered by the premiums paid over a period. The higher the risk of an event happening and/or the cost of recovery, the higher the premium needed to cover it. Where events become too frequent, or result in too high a repair bill, insurance can no longer be offered at affordable rates.

Experience over the last decade or so suggests that flood risk is becoming uninsurable in some areas due to a combination of:

- More frequent, heavy rain;
- Poor maintenance of flood defenses; and
- Inadequate investment in protecting properties that have been built in flood risk areas.

Flood is a difficult risk for private insurers to underwrite for several reasons. For example, flood risks are not well diversified and serious floods tend to affect all properties within a widespread area, often leading to catastrophic losses. This means that if flood insurance were to be compulsory the problem of adverse selection would arise. Adverse selection is the tendency for people with the greatest probability to show the greatest interest in purchasing insurance. In this situation only people concentrated in flood-prone zones would tend to purchase

flood insurance. These high-risk insured would be likely to purchase more insurance and have frequent claims, thereby exposing insurers to potentially crippling losses. Insurers would be forced to react either by charging higher premiums or by not providing insurance at all in these areas.

The project of law regarding compulsory homeowners insurance against natural catastrophes is desired to be active since 1st of January 2007. This project will be proposed to the Govern for approval at the end of June 2006, and during this summer the Specialized Commission of the Parliament will debate it. The applicable normative will be realized in October and will be approved by a Government Act. The Govern decided the maximum guaranteed sum insured would be 20.000 EUR, and the annual premium of 20 EUR.

If the value of a house is less than 20.000 EUR, the insurance premium will be smaller. If the value is more than 20.000 EUR, the homeowner has the choice of insuring the exceeding value to a specialized Insurance company. There will be also penalties for the people who won't pay this insurance. The members of this insurance program will be the insurance companies licensed by Insurance Supervising Commission (C.S.A.). The main criteria will be financial performance and territorial existence. All these insurance companies will set up a reinsurance company to cede these risks outside of our country. This project is elaborated with the experts of World Bank. The specialists of the local insurance companies expect that won't be the possibility to insure all houses. The negativist specialists don't agree the idea of paying insurance for the people that built their houses in flooded area, or from poor materials, or houses already affected by floods or earthquakes. The reason is – lack of incertitude. More normal it is to be a different tariff for different situations. On the other side the initiators of this project mention the solidarity principle. The law will mention some fiscal facilities for poor people. The one who cannot pay the insurance premium will be helped; these amounts will be covered from the national budget.

The members of CSA don't believe that in the next 8 months this law will be active. The Govern expect the law to be operable from the 1st of January 2007. But the people aren't prepared for it. For the moment just a memorandum passed through Govern. There will follow a project of law to cover all the aspects of homeowner insurance. More over, in Romania adopting a law seem to be very complicated and long lasting. Even if the desired date is similar to the EU integration date, it is just a coincidence, because in EU there is no regulation about the compulsory character of homeowners insurance – and the percent of insurance is 80%. The initiative of such an insurance appeared in our country after the devastating floods in 2005, and from the Turkish experience after their earthquake.

There will also be a lot of debating about the fact that in our country aren't a risks map. Even if there is a project with World Bank that mentions the object to establish these maps, the end of it seems to be far away. The Transport, Tourism, Construction Ministers also has no map risks. Just a month ago a specialized

commission has been set up to analyze some regions. More, this action plan would include in particular:

- Improving cooperation and coordination between different States through the development and implementation of flood risk management plans for each adversely affected river basin and coastal zone;
- Development and implementation of flood risk maps by Romania for its regions;
- Improving information exchange, sharing of experiences, and the coordinated development and promotion of best practices; these measures would in particular fall within the area of responsibility of the Insurance Supervising Commission;
- Developing stronger linkages between the research community and the authorities responsible for flood management;
- Improving coordination between the relevant Romanian Community policies;
- Increasing awareness of flood risks through wider stakeholder participation and more effective communication.

Almost 800.000 people already have homeowners insurance. That means almost 10% from the insurable houses. And they must subscribe for a compulsory policy. After ending the policy year period, they can insure again their houses just after paying the compulsory one. So the whole 8 millions houses must be insured for 20 euro premium/year/house.

When you are a flood insurance policyholder:

- Flood insurance compensates you for all covered losses.
- Coverage is relatively inexpensive.
- You can depend on being reimbursed for flood damages, even if the President does not declare a Federal disaster.
- You do not have to repay a loan, as you might have to with many Federal disaster relief packages. Your covered losses are paid in full.
- You can count on your claim being paid in the event of a flood loss because the government backs Insurance Supervising Commission flood insurance.
- We can help you handle your claim quickly, so that you will not have to put your life on hold if a flood damages your property. You can even request a partial payment immediately after the flood, which can help you recover even faster.

This business seems to be very profitable for insurance companies – in case there will be no substantial losses. Just in one year, the gross written premium for the entire market is 160 millions EUR. But there is no guarantee, because 2006 started with significant floods, the second consecutive year.

4. CONCLUSION

Taking into account these mentions the local insurance companies are preparing for competition. Some important insurance companies already divided the risks in their format policies. Now the risks are shared in general risks and catastrophic risks. The insurers offer by now promotional offers for buying homeowner insurance. In the moment this insurance will be compulsory, the insured people will present to the state supervisors the existing policy, and the one that don't have insurance must pay for a new policy.

Beside this method, CSA study in this moment the opportunity to set up a new reinsurance company whose shareholders to be most important insurance companies in the local market. In this way all insurance companies will sell the same policy at the same price. It is very possible in this case that local insurer to offer discounts to other insurance products to the ones that choose their company. And this will be benefic both for society and for insurance companies.

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MANAGERIAL TRAINING IN TRADE AND TOURISM SMES: EVIDENCE FROM BRASOV

NICOLAE MARINESCU¹, CRISTINA ANTONOAIE²

ABSTRACT. Small and medium-sized enterprises (SMEs) in trade and tourism confront themselves with a rather precarious level of managerial training. Data collected by means of a field research on SMEs in Brașov city tends to support this view. The paper highlights some of the findings of the research in this respect and formulates some proposals on the issue.

Key words: SMEs, trade, tourism, management

1. THE RESEARCH

This paper is based on a field research undertaken by the author during April-May 2005 on a number of 133 SMEs active in the field of trade and tourism in Brașov city. Managers of the SMEs included in the research were required to fill in a semi-structured questionnaire with most questions being of closed type and some of the questions left open to enable managers to express their views on certain aspects concerning their activity. The questionnaire comprised a specific part for trade and another one for tourism to cater for differences.

According to statistics, out of 6,201 active SMEs in Brașov city, a number of 3,528, i.e. over half of them, are active in trade and 343 in tourism. Besides eliminating from the research SMEs that had no existing turnover for the last year, those without at least one employee were also dropped from the research, as most of the managerial aspects would have been not relevant or would have missed completely in those cases. The majority of SMEs have no employees, so that for the purposes of the research remained a number of 874 eligible SMEs in trade and 147 eligible SMEs in tourism.

Research has been limited to 114 trade SMEs and 19 tourism SMEs, which account for approximately 13% of the total available number of SMEs in the two fields mentioned above.

Of all the firms approached, a number of 55 SMEs in trade and 14 SMEs in tourism have answered the questionnaire. As a consequence, valid answers rose up to just 48.2% in case of trade SMEs and 73.7% in case of tourism SMEs. Nonetheless, the size of the resulted sample can be considered representative from a statistical

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point of view. It makes out 6.3% of the total eligible number of SMEs in trade and 9.5% in tourism.

The 69 SMEs constituting the sample are extremely heterogeneous with regard to the products and services offered, thus reflecting a general feature of the SME sector. By size, SMEs in the micro category dominate the sample.

The focus of the research was put on the management of SMEs, including managerial behavior, management activities, success factors and barriers regarding the firm's operations, as well as the competitive position of the firm.

2. FINDINGS

One of the questions comprised in the questionnaire investigates the mode in which managers of SMEs obtained their managerial training. Surprisingly enough, only 24% of managers in trade and 36% in tourism have graduated an economic faculty, of which only 8% and 50% respectively, have gotten a postgraduate degree as well. Generally speaking, only 25 of the 69 managers (36%) have economic studies of some kind, which is very low for sectors like trade and tourism.

Most of the managers indicated that managerial training has been obtained by daily experience (76% in trade SMEs, 71% in tourism SMEs), supplemented by specializations undertaken in various institutions active in that particular field, professional schools, or distance learning. Such specialized training appeared in the case of 38% of managers in trade (fairly low percentage taking into account the lack of graduate studies) and 71% of managers in tourism.

Thus, comparing the two sectors, managers in tourism SMEs seem to have a better economic training than their counterparts in trade SMEs.

On the overall, more than one third of managers have no economic studies, postgraduate courses or specializations whatsoever. This situation puts its mark not only on the accuracy of their answers but also on the efficiency of their firms.

Table 1.

The relationship between managerial training and profit margin

| Managerial training | Gross profit margin (%) | | | | | Total |
|--|-------------------------|-------|--------|-------|-------|-------|
| | Loss | 0 - 5 | 5 - 10 | > 10 | Non | |
| Economic faculty / postgraduate courses | 5.8% | 13.1% | 5.8% | 7.2% | 4.3% | 36.2% |
| Specialization / daily experience | 13.1% | 15.9% | 11.7% | 7.2% | 15.9% | 63.8% |
| Total | 18.9% | 29.0% | 17.5% | 14.4% | 20.2% | 100% |

Data in table 1 shows that more than half of SMEs who reported losses in the fiscal year 2004 are run by managers with no economic background. The high rate of non-published data recorded with managers of this kind may be a clue that

in general terms, positive financial results of SMEs are more biased towards those run by managers who underwent some sort of organized managerial training.

Actually, upon contrasting data collected by means of the questionnaire with financial results published by the administration, about one third of managers gave a wrong answer concerning the gross profit margin recorded by their firms.

Deficiencies in the interpretation of basic financial indicators became obvious during carrying out the research, as in some particular cases managers didn't even make a clear distinction between turnover and profit. A small part of the managers (16%) pinpoint efficiency by means of return on assets or productivity. Most of them think of efficiency in terms of profit (absolute value) or turnover.

The scarce use of financial indicators by managers in the activity of SMEs is accompanied by the misunderstanding of market mechanisms, little knowledge of concepts like economies of scale or bargaining power and lack of true competitive behavior. This leads in turn to an improper estimation of the own competitive position in comparison to other firms in the same market.

A large part of the managers of SMEs consider their products and services to be qualitatively superior (64% in trade, 71% in tourism), as well as priced lower (79% in trade, 58% in tourism) compared to those offered by competitors. Such a situation cannot be considered realistic at an aggregated level and shows a lack of sincerity and / or knowledge on part of the managers.

None of the managers stated to be "far behind competition" in terms of prices, quality, image, costs, management or training in the case of tourism SMEs and only 7% of trade SMEs recognized this for a single factor. With the exception of costs and training, in all the other elements the majority of managers considered to be superior compared to competition.

Obviously, the adoption and pursuit of one single generic strategy based either on low cost or on differentiation is an unknown feature to SMEs and is not applied in practice. Most managers of SMEs try to balance their way between the two characteristics and get "caught in the middle", without defining a clear strategic position, meant to generate a competitive advantage.

Nonetheless, it is true that in the case of SMEs, competitive advantage can stem from a particular feature of their activity, considered highly important by the manager and developed to differentiate from competitors and to deliver a certain benefit to customers. The customer's perception of value is very subjective in the measurement of the quality of services in trade and tourism, situation which can shift the balance in favor of a firm or another.

However, the research shows that neglecting the competition and little knowledge of one's own strong and weak points is another negative characteristic in the managerial training of the persons in charge of trade and tourism SMEs. For most of the managers, competition is an important threat, but it is viewed as distant or not taken seriously and little is done to study, evaluate, anticipate and circumvent moves of the competitors.

Interestingly enough, 25% of managers are geared towards growth and another 38% opted for consolidation (as opposed to stability and survival) which is an encouraging perspective for Braşov's SMEs. Though, most of the managers stressed as variable for growth the physical dimension (number of outlets, selling space, capacity) instead of the financial one (turnover, profit). Again, efficiency indicators were awarded a secondary role compared to absolute financial values.

Also, few of the managers (18%) expressed their wish to increase the number of employees. Conversely, growth of SMEs in trade and tourism is difficult or even impossible to maintain after a certain threshold of productivity without an increase in employee numbers.

3. SUGGESTIONS FOR IMPROVEMENT

As research shows, SMEs in trade and tourism confront themselves with a lot of external obstacles such as lack of scale economies, fierce competition from big retail and tourism companies, excessive fiscal regulations, and unfair treatment in case of public procurement. But there are internal factors as well which contribute to the precarious financial situation of the SMEs and an important one of them is the lack of proper managerial training.

Bad management is an important reason for many SMEs only trying to survive from one day to another or being marginally profitable or unprofitable. The lack of vision and of a clear, written strategy together with the reluctance of owner-managers to delegate leads to putting the emphasis on short-term, operational management. The chronic lack of time available demonstrated by managers implies that they rarely stop to reflect on things like the future direction of the firm.

The existence of a strategic behavior is essential in today's competitive environment and is particularly important in trade and tourism, where seasonality has a large influence. Only by means of consistent planning, a SME can overcome frequent external changes and move along in the right direction.

Information must be treated as a resource of utmost importance and its role in value creation has to be recognized by managers of SMEs. The careful observation of competitors and of the own firm followed by anticipating tendencies in the environment and in consumer tastes is vital for a proper usage of opportunities and for a good match between competencies of the firm and success factors of the market. Though, few of the SMEs create and develop a database with such essential information for their activity.

Additionally, the interest of managers in improving their abilities by means of training programs is rather low. This is a consequence either of the non-availability of such programs, of their poor quality or of the weak level of competition for the time being. This paper suggests some ways to tackle the problem of managerial training in SMEs.

From a macroeconomic point of view, one basic method would be to insert modules of entrepreneurship or business skills in the curricula of all high-schools and faculties and to make a shift towards the practical side of education.

Another proposal concerns the creation of a strong national network of consulting centers, on a combined public and private basis. They should be made up of professionals, working on a commission linked to success, supplying SMEs with services of various kinds, e.g. financial analysis, human resources, market access etc., specialized on sectors. Of particular appeal to SMEs in trade and tourism would be training programs on the norms, regulations and certification procedures used by the European Union, which have to be implemented by Romanian SMEs as well.

The costs of programs could be covered by monitoring taxes paid by the respective SMEs to the local budgets. The measures would be facilitated by giving SMEs the possibility to deduct costs with management and staff training programs from corporate tax.

From a microeconomic point of view, improving managerial training is a result of both willingness of managers to engage in continuous learning and supply of programs available offered by private firms.

Often consulting firms concentrate on the big players, forgetting that the vast majority of firms are actually SMEs. This is also one of the reasons for the shortage of well-designed training programs for SMEs. The suggestion would be to offer training based on concise courses, with a strong applied and attractive nature, as close as possible to the objectives of the firm. Taking into account the lack of time usually displayed by managers of SMEs, courses can be developed in electronic format or even be delivered online. This way they can include a self-assessment component, which would be particularly useful to managers.

Once the owner-manager is convinced of the quality of the training program, it can be then easily extended to staff in trade and tourism SMEs, as employees have an unparalleled importance in the two areas, because of their close relationship to customers.

Increasing the level of professionalism of managers in SMEs by means of training includes their ability to calculate the basic financial indicators and to determine the relationship between these, e.g. efficiency ratios like return on investment, as well as cost calculation, staff turnover, or market trends.

Managers in trade SMEs have to determine specific indicators like inventory turnover, profit margin for every product line or customer and productivity per employee or per square meter. For tourism managers, essential indicators are average earnings per visitor and average costs per visitor, or occupancy rates.

For managers of retail trade SMEs it is essential to strike the right balance between supplying large volumes at lower costs but then cope with higher inventory costs or the other way round. Also, the assortment has to be balanced between own plus local brands and brands promoted on a national scale.

The determination of the optimal price must be based on the forecasted sales volume, which in turn shall take into account physical boundaries of the market or area where products will be sold, demography of the target market, purchasing power, maximum potential sales volume of the area and existing competitors.

The role of wholesale trade SMEs will grow in relation to their counterparts in retail, as opposed to large retail chains, because SMEs in retail are not able to negotiate directly with producers. Managers are faced with the central trade-off between rapid, prompt delivery and costs.

Monitoring of inventories, improving transport facilities usage, increasing inventory turnover and on-time deliveries are key elements that wholesale managers have to get hold of. Focusing on costs on multiple levels of operation enables their reduction while supplying goods in function of demand size and structure.

For products with fast movement, inventory has to be continuous by developing a procedure based on turnover, delivery times and quantities to be supplied with every order.

For tourism SMEs, the correct forecast of demand becomes essential, as its growth may not be sustained and fixed costs are high due to investments in capacity or inventory. Some of the entertainment services offered complementary to the basic ones, are often a result of seasonal trends. This is why a large part of the costs of equipment are covered only on a long period of time.

Managers of SMEs have to cope with the fact that tourism is labor-intensive and services cannot be held in stock. This implies a continuous quest to increase productivity. Therefore, an important success factor in the hospitality industry represents the experience, attitude, and personal attention of the manager for his employees and the activities they are performing. Managers must often transform themselves into project leaders working with teams built up of multi-qualified staff.

One particular suggestion for the improvement of management of tourism SMEs stresses the importance of understanding and adopting yield management as a tool by managers, as well as shifting some of the operations towards customers (as it happens in rural tourism for example).

Unfortunately, a large part of managers of SMEs still expect solutions to come from the government or administration. According to them, the development of SMEs depends on the institutional and legal framework, availability of financial means and ability to adapt to frequent changes in the environment.

Though, even if the factors above are to be taken into consideration, solutions for solving the problems have to be discovered at microeconomic level. A new orientation is needed for management of SMEs, with a different mentality, much more modern and flexible, much more professional, with increased emphasis put on strategic planning. The intuitive manner of managing SMEs has to be completed by a systematic approach and this particular feature can be improved by increasing the level of managerial training.

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THE IMPACT OF ROMANIAN-HUNGARIAN COMMERCE ON ROMANIAN WESTERN BOUNDARY COUNTIES

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ABSTRACT. The purpose of this paper is to study the commercial relations between Romania and Hungary and the impact of these on the local economies from the Romanian western boundary counties (Satu-Mare, Bihor, Arad, Timis).

The paper is structured on three parts.

In the first part we present several opinions on the same subject and will define the objective of our paper.

In the second part, presenting some economic indicators, will demonstrate the existence of economic disparities between European Union, Hungary and Romania. Starting from here, we present the actions implemented in the region studied to diminish these differences.

In the third part we shall study the impact of the commercial relations on some macroeconomic indicators as Local Gross Domestic Product, Unemployment, Direct Foreign Investments. Also, we will study the correlation degree between these macroeconomic indicators.

Key words: economic disparities, commercial relations, gross domestic products, unemployment, foreign direct investment

1. Introduction

The different level of economic development existing between the border regions of Romania and Hungary creates, at the same time, opportunities and problems for firms and consumers. The import of more competitive goods from the other region will harm the local producers. Also, consumers will pass the border and will buy the goods they need from the other country.

The subject of economic relations between the regions of the two sides of Romanian – Hungarian border was studied also by Telegdy (2001) and Törzsök (2000).

Erika Törzsök, in his paper “Cross border Economic Activity in Hungarian - Romanian Border Region - Company Survey” made a questionnaire on 400 firms (200 Romanian and 200 Hungarian) and she emphasized the importance of the cross border economic activity for the investigated enterprises, their motivations and difficulties for selecting the appropriate partner on the other side of the border and the influence of Hungary’s EU- adherence before Romania upon the behavior and business strategy of companies.

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Almos Telegdy, in his paper “On the two sides of the same border: Eastern-Hungarian and Western-Romanian firms”, analyze the general part of the survey detailed by Törzsök, and he found that the number of firms per inhabitants is higher in the Western region than in all regions of the country (except the capital city). Foreign ownership firms are more prevalent in this region, compared with the country averages. Hungarian firms invest in the border region of Romania, and foreign trade is also intense between the two regions.

The purpose of our paper is to study the economic correlations between the Hungarian and Romanian border regions. We will try to identify how the Hungarian direct investment, the emigration process from Romania to Hungary and the unemployment rate influence the evolution of Romanian border counties GDP. Also, we will try to identify how the Hungarian direct investment and the emigration process from Romania to Hungary influence the unemployment rate in Romanian border counties.

2. The studied region and the economic disparities

Inside the European Union there are major economic disparities between EU 15 countries and the new integrated countries. Also, the economies of Romania and Bulgaria, the last two candidates for joining European Union have a few steps behind the economies of EU 25 countries. Table 1 illustrates very clear this idea:

Table 1

General economic background

| 2004 | EU (25 countries) | EU (15 countries) | Hungary | Romania |
|--|-------------------|-------------------|---------|---------|
| GDP per capita in PPS² - GDP per capita in Purchasing Power Standards (PPS), (EU-25=100) | 100 | 108.6 | 60.1 | 32.2 |
| Real GDP growth rate - Growth rate of GDP volume - Percentage change on previous year | 2.4 | 2.3 | 4.6 | 8.4 |
| Labor productivity per person employed - GDP in PPS per person employed relative to EU-25 (EU-25=100) | 100 | 106.2 | 68.1 | 36.3 |
| Total employment growth - Annual percentage change in total employed population | 0.6 | 0.7 | -0.7 | 0.4 |
| Inflation rate - Annual average rate of change in Harmonized Indices of Consumer Prices (HICPs) | 2.1 | 2 | 6.8 | 9.3 |

Source: EUROSTAT

² The value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. Purchasing power is important because, all else being equal, inflation decreases the amount of goods or services you'd be able to purchase.

As we can see there are significant differences between Romania and European Union and Hungary. Apart from real gross domestic product growth rate (were Romania obtained in 2004 a better value), Romania has very poor economic results.

In order to “catch-up” the developed economies, the less developed countries applies programs for regional development. As a result, Romania, East – Hungary and Serbia joined in 1998 the European Union’s Phare Cross-Border Co-operation program. This document is a trilaterally elaborated Cross-border Co-operation program of the Hungarian-Romanian and Hungarian-Serbian border areas.

As it states, the overall aim of the program is: ***“To bring the people, communities and economic actors of the border area closer to each other in order to establish a sound basis for balanced economic and social development, assuring optimal development opportunities for all three countries³.”***

The program has four specific objectives:

1. To establish and develop the physical and infrastructural systems supporting co-operation.
2. To establish and develop a joint system to protect and capitalize on common natural resources promoting sustainable development.
3. To reinforce economic connections between the borders regions in order to boost sustainable economic development building on joint assets.
4. To develop social and cultural coherence among people and communities.

The counties that made the object of our paper are eligible areas in this program and are NUTS III level⁴ areas adjacent to the border. Thus, the eligible area in Hungary, which are our subject too, are: Szabolcs-Szatmár-Bereg county, Hajdú-Bihar county, Békés county, Csongrád county.

In Romania, the eligible border area is located in the north-western and western part of the country and consists of four counties that are administrative units of NUTS III level as follows (from north to south): Satu Mare county, Bihor county, Arad county, and Timiș county.

Hungary is already a member of European Union and his economic level is better then in Romania. According with Romanian Office of Commerce Register⁵, at 31 December 2005, Hungary represents the fifth foreign investor after the number of Romanian firms with foreign capital or the thirteen after the value of foreign investments.

³ Cross-Border Cooperation Programme Hungary-Romania and Hungary-Serbia&Montenegro, pg.23, June 2004

⁴ In order to facilitate the collection, compiling and dissemination of comparable regional statistics, the European Union has introduced a common classification of territorial units for statistical purposes (NUTS) in place of the one established by Eurostat. The NUTS classification is hierarchical in that it subdivides each Member State into three levels: NUTS levels 1, 2 and 3. The second and third levels are subdivisions of the first and second levels respectively. Member States may decide to go further still in terms of hierarchical levels by subdividing NUTS level 3. The NUTS level to which an administrative unit belongs is determined on the basis of population thresholds as follows: NUTS 1: between 3 and 7 million, NUTS 2: between 0.8 and 3 million and NUTS 3: between 0.15 and 0.8 million persons.

⁵ National Office of Commerce Register – “Societăți comerciale cu participare străină la capital – sinteză statistică la 31 decembrie 2005 – date provizorii”, nr. 92



Figure 1. – The Hungarian – Romanian border counties

According to Romanian Statistical and Economic Studies Institute, in Romania are living 1.4 million Hungarian inhabitants, while 46.1% are located in West and North-West region. On the other hand, Hungary is the most transited country to the European Union.

3. Macroeconomic correlations

According to Hunya (2003) and Telegdy (2003)⁶, at the Hungarian-Romanian border, the less developed Hungarian regions meet the more developed Romanian regions (after Bucharest). Analyzing the dates from Table 2 we can observe that Hungarian economy creates a greater value of GDP than the Romanian economy. Implementing strategies for regional development, Romania tries to “catch-up” the most developed economies. A proof in this sense is the growth index of GDP. For the analyzed period, we obtained a value of 1.3674 for Romanian counties and 1.1426 for

⁶ Hunya, Gabor; Telegdy, Almos – “Hungarian - Romanian cross – border economic co-operation”, *Revue Region et Development*, no. 18 – 2003, pg. 2

Hungarian counties. If we analyze for the whole countries, we obtained a greater value for Romania - 1.3634 than for Hungary – 1.1579. On the other hand, we observe that the four Romanian counties recorded a greater growth than the value of the country, while the Hungarian counties recorded a lower value than the value of the country.

Table 2.**GDP at current market prices (Millions euro)**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|-------------------------------|---------|---------|---------|---------|---------|
| Romania | 14531.5 | 21402.6 | 31092.7 | 40334.2 | 52606.8 |
| Satu Mare | 219.7 | 302.0 | 461.0 | 572.3 | 765.0 |
| Bihor | 420.7 | 571.6 | 877.8 | 1239.1 | 1609.6 |
| Arad | 395.6 | 489.6 | 710.7 | 879.0 | 1198.7 |
| Timiș | 618.2 | 776.0 | 1201.6 | 1603.1 | 2237.8 |
| Hungary | 45074.6 | 50654.9 | 57873.7 | 68902.0 | NA |
| Szabolcs-Szatmár-Bereg | 1396.2 | 1564.2 | 1888.5 | 2152.7 | NA |
| Hajdú-Bihar | 1739.9 | 1954.7 | 2311.0 | 2739.9 | NA |
| Békés | 1201.5 | 1310.5 | 1470.4 | 1670.2 | NA |
| Csongrád | 1619.9 | 1762.6 | 1937.7 | 2232.7 | NA |

Source: EUROSTAT, Romanian National Institute of Statistics

After Bucharest, the West and North-West regions are the most developed from Romania. As resulted from a study made by the Group of Applied Economy (from Romania), Timișoara (from Timiș county) obtained the highest level at the European Convergence Index⁷. This index measures the level of convergence of local authorities and administrations with European Union demands. It is composed from three sub indexes: administrative, economic and socio-cultural. In Hungary, the eastern border region is less developed than the country average.

Pusterla (2005) and Resmini (2005)⁸ explain why the western regions of Eastern European Countries are more developed than the eastern. Multinationals, in fact, choose their final location among two large groups of alternatives: regions which are very likely to become internal to the EU, and regions that belong to countries that will keep on being considered as candidate countries. National borders do not seem to play any role in location choice.

⁷ Grupul de Economia Aplicată (GEA) – “Monitorizarea performanțelor autorităților locale: Indicele de europenitate”, februarie 2005

⁸ Pusterla, Fazia; Resmini, Laura – “Where do foreign firms locate in transition countries? An empirical investigation”, 2005

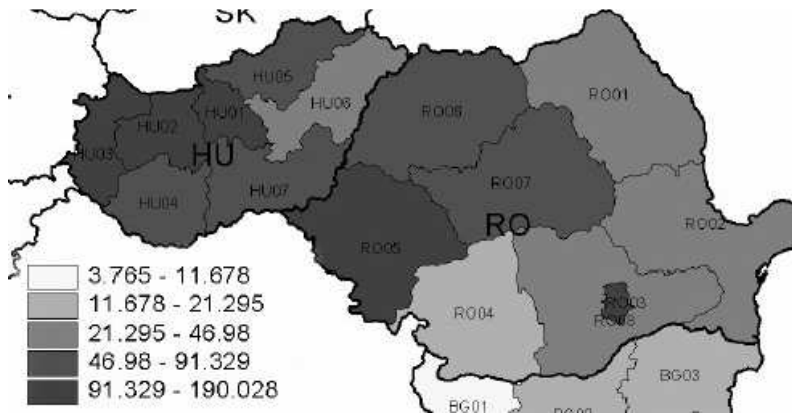


Figure 2. - Foreign Direct Investment (no. firms per millions persons)

In Hungary case, the situation is different. Hungary was lately accepted in EU and, in this period, the costs with goods production was raising considerably. So, the Hungarian firms are searching a near place to produce cheaper. This can be a reaction to consumers' behavior (coming in Romania to buy cheaper products) or the need to lower production and transport costs. As Törzsök (2000)⁹ identified, in Hungary, 59% of firms prefer Romanian firms as partner or Romania like destination country.

Table 3.

Hungarian Direct Investment in Romania

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------------------------------|----------|----------|----------|----------|----------|
| Number of firms | 3595 | 3978 | 4392 | 5010 | 5631 |
| % from total no. of firms | 4.36 | 4.42 | 4.52 | 4.66 | 5.05 |
| Value of FDI (thousand USD) | 189769.0 | 223667.3 | 264526.8 | 347077.6 | 441857.0 |
| % from total value of FDI | 2.42 | 2.5 | 2.55 | 2.56 | 2.78 |

Source: Romanian Statistical Yearbook – 2004

The firms and persons who are acting in the border region are confronted with cost problems. As Hungary is already a member of European Union, the prices rose up. Price differences exposed the companies to an increased competition, given the small transportation cost form the neighbor country. On the other hand, the Hungarian consumers decided to purchase products form Romanian border counties, creating a phenomena of consumption tourism. According to the

⁹ Erika Törzsök - "Cross border Economic Activity in Hungarian - Romanian Border Region - Company Survey", Institute of European Comparative Minority Studies, 2000, pg. 9

journal “Piața”¹⁰, “daily, hundred of Hungarians shops in Romanian border towns”. Looking on the following list of prices for some base products will realize that the Hungarian consumer behavior is perfectly justifiable.

Table 4**Price differences between Romania and Hungary**

| Product | Price in Hungary | Price in Romania |
|------------|----------------------------|----------------------------|
| Sugar | 8.60 RON/kg | Between 2 – 2.13 RON/kg |
| Table oil | 4.80 RON/l | 3.11 RON/l |
| Rice | 4.50 RON/kg | Between 1.70 – 1.87 RON/kg |
| Breadstuff | 4.34 RON/kg | Between 1.43 – 1.61 RON/kg |
| Wine | 13 RON/bottle | 9 RON/bottle |
| Beer | 12.30 RON/6 bottles x 0.5l | 8.40 RON/6 bottles x 0.5l |
| Detergent | 6.50 RON/kg | 5 RON/kg |

Source: Piața no. 16/2006, pg. 67

Studying the unemployment rate, we observe that the four analyzed Romanian counties have a better situation than the country rate. On the other hand, in Hungary, the counties from North Plain have a greater unemployment rate than the country rate, while, the counties from South Plain have, in most cases, a lower rate. In Hungary, the most developed region has a lower unemployment rate, but, in Romania, we have an unusual situation, having greater unemployment rate in a most developed region than in a less developed one. Using the dates from Table 7, we can formulate a possible explanation. In Satu Mare and Bihor, the total arrivals are less than the total departures of population, so we are confronted with a lower supply on labor market. In Arad and Timiș counties, we have the opposite situation. Due to the fact that total arrivals are greater than total departures, on the labor market we are confronted with a greater concurrence. In spite of this, the level of unemployment rate in all four counties is lower than the average value of unemployment rate in Romania.

Table 5**Unemployment rate**

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------------------------|------|------|------|------|------|------|
| Romania | 11.8 | 10.5 | 8.8 | 8.4 | 7.4 | 6.3 |
| Satu Mare | 6.3 | 4.5 | 3.1 | 4.0 | 2.8 | 2.0 |
| Bihor | 6.0 | 4.6 | 3.1 | 3.2 | 2.5 | 2.1 |
| Arad | 9.4 | 8.4 | 6.1 | 5.0 | 4.7 | 3.6 |
| Timiș | 8.4 | 7.6 | 6.5 | 3.9 | 3.5 | 2.6 |
| Hungary | 7.0 | 6.4 | 5.7 | 5.8 | 5.9 | 6.1 |
| Szabolcs-Szatmár-Bereg | 11.1 | 11.2 | 9.6 | 9.1 | 8.4 | 9.5 |

¹⁰ Piața – “Maghiarii întrețin afacerile comercianților din Ardeal”, no. 16/2006, pg. 67 - 68

| | | | | | | |
|--------------------|-----|-----|-----|-----|-----|-----|
| Hajdú-Bihar | 8.8 | 7.2 | 6.4 | 6.6 | 6.0 | 5.7 |
| Békés | 6.2 | 5.7 | 6.0 | 6.9 | 7.1 | 6.5 |
| Csongrád | 4.6 | 4.0 | 3.7 | 5.5 | 5.0 | 4.9 |

Source: EUROSTAT, Romanian National Institute of Statistics

Table 6

International and Intern migration in Romanian counties in 2004

| | International | | Intern | | Total | |
|------------------|---------------|-----------|----------|------------|----------|------------|
| | Immigrants | Emigrants | Arrivals | Departures | Arrivals | Departures |
| Satu Mare | 25 | 463 | 5061 | 5225 | 5086 | 5688 |
| Bihor | 65 | 521 | 9358 | 9017 | 9423 | 9538 |
| Arad | 65 | 345 | 8042 | 6373 | 8107 | 6718 |
| Timiș | 159 | 882 | 12474 | 9801 | 12633 | 10683 |

Source: Romanian Statistical Yearbook 2005

Calculating the mean value of the unemployment rate for the two border regions (each formed by four border counties), we obtained that this value is lower Romanian region than Hungarian region. That confirms the fact that this Romanian region is one of the most developed, after Bucharest.

We analyzed the relation between GDP of Romanian border countries, the Hungarian direct investment in Romania and the unemployment rate from Romanian counties. Between these three macroeconomic indicators there exists a strong relation. In fact, the influence of direct investment and the rate of unemployment on the value of GDP of the region is about 92.59%. The Hungarian direct investments have a positive influence on GDP of Romanian border region, while the rate of unemployment has negative influence.

Also, we were interested to find if the level of unemployment is connected to the level of Hungarian investments in the four Romanian counties and the level of Romanian emigrants to Hungary. The results were surprising, due to the value of determination coefficient, which showed us that the level of Hungarian investments and the level of Romanian emigrants to Hungary have a 98.15% influence on the level of unemployment rate in Romanian region. Each of the variables has an inverse relation, which means that if each variable grows then the rate of unemployment will fall.

Conclusions

Analyzing the macroeconomic variables we conclude that there is a strong relation between the economies of the two regions situated across the Hungarian-Romanian border.

As other authors demonstrated, there are multiple economic relations in this area. Also, the problem of “economic delay” it can be found in both regions. So, in

our view, the collaboration between Romania and Hungary on the elaboration of regional development programs is a normal and an important thing. This is the only way for us in this marathon, in which we have to admit that we are far away from the finish line.

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DACIA LOGAN – A SUCCESSFULL CAR IDEA

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ABSTRACT. In the present paper we present how a car brand, apparently without great perspectives has become a global brand, full of success. After the integral takeover of Dacia by Renault-Group in 2004, the French car maker developed a modern, sturdy, reliable and economical car.

Designed to be priced at Euro 5000 for the basis model, Logan is one of the first models from Renault-Group developed using a pilot program with digital technology. At the beginning the carmaker wanted to reach in the markets in Central and Eastern Europe and similar markets in South America, Africa and Asia.

We will analyze the strategies used by Dacia Renault Group that makes the car to become a model appreciated all over the world, a proof of this affirmation being the sales on 4 continents.

Key words: car brand, design to cost, Euro 5000 price, brand strategy, plants

Introduction

In 1899, Louis Renault founded Renault Freres, one of the first car manufacturers from the world. In time the French state took the control of the company and at the beginning of '90 it was in a very bad situation.

After losing the takeover of Swedish carmaker Volvo, Renault had a very bad financial situation. The president of Renault, Louis Schweitzer, engaged Carlos Ghosn, ex CEO of Michelin North America as Executive Vice President and together they conceive the new strategy. As a result of this, on 27 March 1999, it was signed the agreement where through Renault took an equity interests in Nissan. In 1999 Carlos Ghosn moved to Nissan Motor as Chief Operating Officer and in the same year Renault took a majority 51% equity share in Dacia the Romanian automaker where which Renault worked closely since 1968. In 2000, Renault acquired the Samsung group's automotive branch of activity.

In 2004 Renault increased its participation to Dacia until 99.3%. This way, Dacia has become Renault's home base in Central and Eastern Europe.

The Renault – Nissan Alliance, the fourth carmaker world wide, is divided into Renault group and Nissan Group. The Renault-Nissan Alliance is the first of

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its kind involving a Japanese and a French company, each with its own distinct corporate culture and brand identity. Both companies share a single joint strategy of profitable growth and a community of interests.

Material and Methods

To realize this paper we used the official sites of Renault, the French carmaker and Dacia, the Romanian brand from the Renault Group. We analyzed the findings from a market research made for the officials from Renault Group.

The 2005 Annual Report from Renault helped us with a lot of information, about the markets, the sales on every market, etc. We can say the same thing about the press release from the officials of Renault.

Results and Discussion

Project Logan

In 1998 Renault started looking into possibility of creating a modern, robust and reliable car at an entry-level price of 5000 Euro. This was the beginning of the X90 project.

Logan Project is part of the international development strategy of the Renault Group, which plans to produce annually more than 700,000 units of this model by 2010.

Logan was a pilot program for the use of the new numerical technologies in the conception of the product, the tools and the manufacturing process. It was developed as a part of the project X90 in which digital simulation technology was used to design and engineer the vehicle and manufacturing tools in order to decide the production process.

The Logan car, completely of Renault origin (technology, development, rolling chassis, engine, gearbox, etc.), was conceived in the Renault Technocenter near Paris and meets the Renault manufacturing standards. Its modern conception corresponds to international standards, notably to the standards of the European Union, concerning safety, gas and noise emissions and recycling of materials.

Calculating vibrations and testing acoustics on digital models helped designers to predict noise levels in the vehicle without using a physical model. The advantage of the digital method, especially in defining and developing the body structure, is that costly prototypes of vehicles and tooling do not have to be built so many physical stages in the design process are eliminated. The total cost saving is estimated at about EURO 20 million.³

Renault had put all its know-how to the service of the Logan project to conceive a modern, robust, reliable and very competitive product. Its price/service ratio is of a high advantage to the customers.

³ Official site, www.renault.com

In order to obtain a good product at a very good price, the French car maker, used five essential axes:

1. Logan was the result of X90 project, a program in which financial consideration were a key.

2. Another peculiarity of the conception process was that Logan was a decisive step of the "design to cost" program, introduced by Renault in 1992.

3. The use of the same elements for several vehicles of the same car manufacturer is a guarantee of reliability and savings for the customers. This logic was present all the way in the development of Logan. So, Logan resume takes over the engines, the front axle, the steering, and rear brakes from the Clio model. The central unit of the interior space, which groups together the electronic functions, is derived from the one, which equips the Clio model.

4. The Suppliers' Industrial Area has been created within the plant. This presence has ensured an important technical competence contribution and a significant productivity gain. This was made in order to cut the production and logistic costs.

5. The Dacia Plants are going to use manufacturing methods resembling to the Renault Manufacturing System. Initiated in 1998 this program allows industrial units of the Group to reach the best performance level in the world. It gathers all actors of the industrial system – buyers/providers, logisticians, engineers and manufacturers – around common objectives and action rules.

International Suppliers' Network

The Project Logan provides 42 first rank suppliers from different countries: Romania, Turkey, Eastern and Western Europe and a supplier assistance program with the objective of improving the development, the organization, the technical capabilities and the cost management. The Suppliers' Industrial Area has been created within the plant. This presence has ensured an important technical competence contribution and a significant productivity gain.

At the beginning the officials from Renault decided to use for Logan, its three engines, 1.4 liter petrol engine, 1.5 liter diesel engine and 1.6 liter petrol engine from the exiting models like Clio, Renault Modus and Nissan Micra. With some specifics incorporated, Logan is adapting to local conditions in different countries such as dust, low and very high temperature, strong rains, bad roads, etc. Its modern conception corresponds to international standards, notably to the standards of the European Union, concerning safety, gas and noise emissions and recycling of materials.

Another key factor in reaching the cost targets set for Logan was the choice of a front suspension similar to that used by Clio, with no anti-roll bar, and rear suspension taken from the Renault-Nissan Alliance's B platform.

Production

Excepting Romania, Logan is already been assembled in Russia, Morocco and Columbia. Renault is investing 230 million to make Logan in Russia and sell

the car there from April 2005. The production unit is the Moscow plant of Avtoframos, a subsidiary jointly owned by Renault and Moscow City Authorities, with the objective of 60,000 vehicles produced per year.

Renault plans to invest 22 million to make Logan at the SOMACA plant in Morocco from the second half of 2005 to the end of 2006. Production of 30,000 vehicles a year is estimated, with some going for export.

Logan is assembled at the Sofasa plant in Colombia from the end of 2005. It is marketed under the Renault brand in Colombia, and from 2006 in some neighboring countries. The Sofasa plant with annual capacity of 44.000 vehicles aims to begin exports to Venezuela and Ecuador during 2006.

For the year 2006 the plans are to produce 30.000 cars annually in Iran. Renault plans to produce Logan in Brazil and India in 2007.

Table 1.**The worldwide sales of cars**

| Markets | Sales of cars | | Change |
|---|-------------------|-------------------|---------------|
| | 2002 | 2003 | |
| EURORE | 19.116.000 | 19.271.000 | + 0,8% |
| Western Europe | 16.226.000 | 15.986.000 | - 1,5% |
| Central and Eastern Europe (including Russia and Turkey) | 2.890.000 | 3.285.000 | + 13,7% |
| AMERICAS | 21.731.000 | 21.265.000 | -2,1% |
| NAFTA | 19.526.000 | 19.132.000 | -2,0% |
| United States | 16.845.000 | 16.579.000 | -1,6% |
| South America (excluding Mexico) | 2.205.000 | 2.133.000 | -3,3% |
| ASIA-OCEANIA | 13.526.000 | 14.738.000 | +9,0% |
| South Korea | 1.618.000 | 1.318.000 | -18,6% |
| Japan | 5.705.000 | 5.696.000 | -0,2% |
| AFRICA / MIDDLE EAST | 1.937.000 | 2.049.000 | +5,8% |
| Total | 56.309.000 | 57.323.000 | +1,9% |

Source: www.renault.com

The world car markets – the Logan's market (Table No.1)

The specialists from Renault made a market research in 2003 with interesting results. They discover that about 57 million cars were sold worldwide in 2003. The most developed markets, the United States, Western Europe, Japan and South Korea, absorbed roughly 80% of the total, although they are home to only 20% of the world's population. The three biggest markets, the United States, Western Europe and Japan, had become replacement markets offering only limited growth potential.

According to the conclusion it is a reserve of markets to be conquered in other regions, where sustained economic growth is causing the automobile sector to expand.

You can see from the results that Central and Eastern Europe (including Russia and Turkey) offer grate perspectives with a growth of + 13,7% in only one year. Renault found out from the research that the rate of ownership was about 70 vehicles per thousand inhabitants in Turkey, 160 per thousand in Ukraine and 350 per thousand in the Czech Republic.

Correlating these results with the per capita income witch is about US \$1,000 in Ukraine, \$2,300 in Russia and Turkey, and \$11,000 in Slovenia it seems these markets offer high growth potential for the automobile sector. The opportunities are significant because cars sold in Logan's price range make up the biggest market segment. For example, in Russia 90% of new cars were sold under Euro 10.000. According to officials from Renault, the Russian car's market had a 6% growth in 2005 meaning more than 1.4 millions cars sold every year.

By way of comparison, given an average base price of 100 for a new car purchased in France in 2002, the equivalent cost was 92 in Spain, 69 in Hungary, and 68 in the Czech Republic and 54 in Poland⁴. These results helped the specialists from Renault to understand the importance of price as a criterion for buyers in the countries where Logan will be sold.

Since the late 1990s the automobile markets in those countries have seen surges of strong growth interspersed with less stable periods. In Hungary new car sales rose from 80,000 units in 1997 to over 200,000 in 2003, with the rate of growth remaining fairly steady.⁵

Logan's potential customers have been clearly identified. In the passenger car market, families are expected to account for more than three out of four buyers in the Czech Republic, Romania and Morocco. They are relatively young, aged between 35 and 49, according to surveys carried out in all the countries where Logan will be sold. Another feature is that one customer out of four in Romania, Algeria and Turkey will be buying a new vehicle for the first time. About the same proportion will own a second car. Logan is also aimed at the business market, especially taxis.⁶

The results from the surveys left no doubt as to what guided customers in choosing a car. Price was the main criterion in Romania, Central Europe and Turkey, followed by low maintenance costs.

Distribution

Logan went on sale for the first time in September 2004 in Romania. Then in the same year, the car was launched in Croatia, Slovakia, Hungary, the Czech Republic, Turkey, Serbia and Macedonia. At the beginning of 2005, Logan was lunched to market in others countries like Poland, Slovenia, Bulgaria, Moldova and Algeria.

In the summer of 2005 the car entered on the Western Europe market. The car was received with great enthusiasm in France, Spain and Germany. The demand in France is so high, that customers wait for about three months delivery of car.

⁴ Official site of Renault, www.renault.com

⁵ Official site of Renault, www.renault.com

⁶ Official market research, press release, www.renault.com

The various versions in the Logan range can be recognized at first glance, sending a clear signal to customers. The *Ambiance* version stands out from the entry-level version with the lower part of the bumpers body-colored, chrome-look trim on the grille, protective side moldings and distinctive hubcaps. The top version, *Lauréat*, has fully body-colored bumpers, 15" wheels, a short strip of chrome beading around the grille and integral fog lamps. In addition to these three versions, specific versions may be introduced for some countries. The interiors of the different versions are differentiated by lighter or darker shades of material and by specific treatment of the central console. Two color schemes are available: medium charcoal and nutmeg. Different upholstery fabrics are used, and in some versions the fabric also features on the door panels. The design of the hubcaps and aluminum wheels reinforces the concept of steps up through the versions. Logan is painted with bright, new, contemporary colors such as Aegean Blue and Fern Green, with a metallic finish.⁷

Table 2.**Versions of Dacia Logan, together with its prices:**

| MODEL | VERSION | PRICE (Euro) |
|----------------------|----------------|---------------------|
| Ambiance | 1.4 MPI | 6280 |
| | 1.5 DCI | 7440 |
| Preference | 1.4 MPI | 6980 |
| | 1.5 DCI | 8140 |
| Laureate | 1.4 MPI | 7680 |
| | 1.6 MPI | 8080 |
| | 1.5 DCI | 8900 |
| Laureate Plus | 1.4 MPI | 8250 |
| Ambition | 1.6 MPI | 8800 |
| | 1.5 DCI | 9620 |

Note: All the prices from this table are given in Euro includes all the taxes and were valid at 09.05.2006. Dacia reserves its rights to modify weekly the prices.

Source: Official web site, www.dacia.com

Thought Logan was announced to be a Euro 5.000 car, its starting price in Romania including all taxes is Euro 6.280 for the Ambiance model, and the biggest price is Euro 9.620 for the Ambition diesel variant. In Central and East Europe is available for similar price as in Romania. In West Europe, Logan prices starts from Euro 7.500 because the car has higher standard equipment.

For selling the Logan, the Renault specialists have two brand strategies. The choice of Dacia or Renault brand on the characteristics of each market and on how long and in what circumstances Renault has been established there.

The entire commercial network is formed from 112.000 dealers located in 118 countries.

⁷ Press release, www.media.renault.com

According to the Renault officials The Dacia brand will help to conquer new customer target groups. Dacia, with its new brand identity as a modern, ambitious company and new badge, is selling a range of modern, robust, reliable and affordable vehicles. In the countries of Central Europe, as well as in Turkey, northern Africa, the Middle East and sub-Saharan Africa, Logan is marketed under the Dacia brand to round out Renault's range.

In West Europe, 45% from Renault dealers are selling Logan models under Dacia brand.

It is positioned in the entry-level segment, which in a country like Poland accounts for 30% of the total market and is hardly covered by the current Renault range. Logan carried the Renault brand in Russia, India and Iran.

After a period of Logan's sales in France, a market research showed interesting results⁸:

- ◆ 76% of buyers were men
- ◆ Average age was 51 years
- ◆ 53% are workers and 28% are retired
- ◆ For 47% of responders Logan was the second or third car
- ◆ Logan was the first new car in their life for three quarters of customers

The results from the surveys left no doubt as to what guided customers in choosing a car. Like in the others countries, in France the buyers followed by price and low maintenance costs.

The Renault group which has over 350 industrial and commercial sites in over 40 countries and 131.879 employers worldwide, is divided into: *Automobile division* and *Sales Financial division*. Automobile division consists of Renault, Dacia (Romania), Renault Samsung Motors (South Korea). The group sold 2.533.000 vehicles worldwide in 2005.

Table 3.

Total sales of Logan worldwide

| | | |
|------------------------------|---|----------------|
| Logan under Dacia brand | Romania | 88.275 |
| | Turkey | 8.317 |
| | Central Europe | 16.631 |
| | East Europe | 1.450 |
| | West Europe | 13.714 |
| | Africa, sub-Saharan Africa, Middle East | 6.532 |
| | Asia and Pacific | 309 |
| | Guadalupe, Guyana and Martinique | 162 |
| Total sales | | 135.390 |
| Logan under Renault brand | Russia | 7.057 |
| | Columbia, Venezuela and Ecuador | 2.876 |
| Total sales | | 9.933 |
| TOTAL SALES WORLDWIDE | | 145.323 |

Source: "The 2005 Annual Report" – www.renault.com

⁸ "Dacia Logan a sedus o clientelă variată în Franța", www.evenimentul.ro

To this numbers it can be added the activity of “Renault Industrie Roumanie”, the CKD Logan export center, which sold products valued at 131 millions Euro.

A sales manager was appointed specifically for the brand in each country. The Renault network’s partners are handle distribution. Depending on the market, Logan is sold by a Renault dealer with a Dacia area featuring special signage or in a Dacia showroom. A two-year warranty is applying in most countries. Distribution by the Renault network is reassuring for customers, offering them the best possible level of services.

Repairs and maintenance

In most countries of the world, repair and maintenance works will be carried out in the Renault – Dacia outlets. In Western Europe, the after sale service will be assured by the Renault concessionaries. The Logan buyers can be sure that they will benefit of an optimum level services in accordance with the Renault quality rules.

A central parts warehouse in Pitești – Romania and connected warehouses located in the Paris region, as well as in Hungary, Poland and later on in Slovenia will be the connecting points of the distribution logistics. This organization guarantees the customers best services, regardless of the country where they are. From 2005 the future Renault-Nissan spare parts center in Győr, Hungary, became a regional hub for supplying Dacia spare parts to the countries of Central Europe.

Perspectives for the next period

Logan Project is part of the international development strategy of the Renault Group, which plans to produce annually more than 700,000 units of this model by 2010.

For the year 2006 the plans are to produce 30.000 cars annually in Iran. Renault plans to produce Logan in Brazil and India in 2007.

Until end of 2006, Logan will be exported in around 50 countries and four continents.

For satisfying the increasing demand, the production rate from the Romanian plants will increase from 680 units per day to 800 units per day until the end of 2006.

Renault intend to develop Logan models by introducing:

- ◆ A new engine (1,6 16V/107 Hp) in spring 2006;
- ◆ New body versions like;
 - Break with 5 or 7 sites in autumn 2006;
 - Pick-up and Van (F90) in 2007;
 - Hatchback (X44) in 2008/2009.

Through X44 project, witch is already tested, specialists from Renault Group are trying to respect Louis Schweitzer’s wish to create a Euro 5000 car.

Conclusions

Logan was a pilot program for the use of the new numerical technologies in the conception of the product, the tools and the manufacturing process.

The Logan car, completely of Renault origin was conceived in the Renault Technocenter near Paris and meets the Renault manufacturing standards.

Some of the Logan's strengths are:

- Its modernity;
- Its moderate price of acquisition;
- Its load capacities (the best of its category);
- The interior space, with five generous seats;
- Its moderate cost of maintenance.

The officials from Dacia-Renault Group sustain that Logan is a successfully car idea worldwide. After the model was launched, the customer's reactions were immediate and very favorable:

- In Serbia and Montenegro Logan was elected "car of the year 2005"
- In Romania is the best sold car;
- In French the demand is so high that the customers wait about three months for delivery of the car.
- A Scottish newspaper considered that "basic models of cars are the future in this business"

There are some auto experts witch consider that it is possible a migration of customer from Western Europe to less sophisticated models of cars. This change is visible in flight industry where low cost companies gain an increasing number of customers.

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THE ROMANIAN BOND MARKET

CRISTINA CURUTIU¹

ABSTRACT. The Romanian bonds market is still underdeveloped, as the municipal and corporate bonds are relatively new products on Romanian capital market. Even so their number and value seemed to grow rapidly since they were first issued. On the Romanian market, one can find two types of bonds: municipal bonds and corporate bonds. The present paper is organized in the following way: the first part presents the evolution of the Romanian municipal bonds, from the moment they were first issued (in October 2001) until the present situation. Then, the paper analyzes the second type of bonds – corporate bonds –present at Bucharest Stock Exchange market since May 2003. Along with the bonds evolution, the paper also presents the main factors which can affect their development as financing instruments and as investment opportunities.

Key words: municipal bonds, corporate bonds, yield coupon

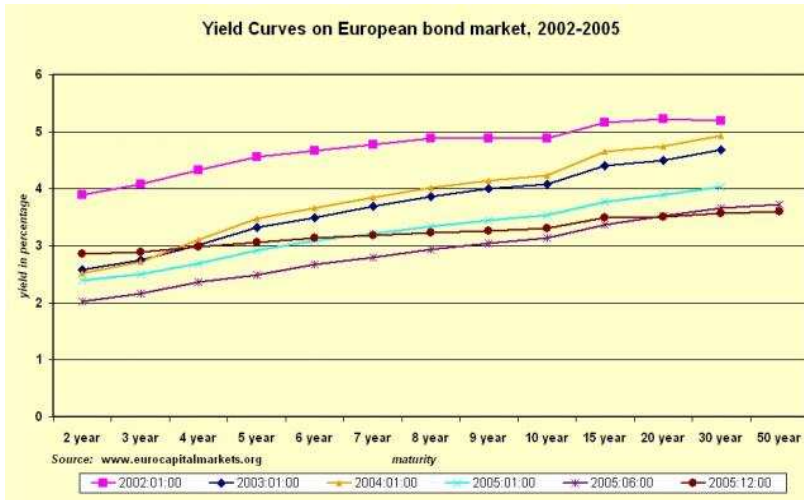
1. Introduction

The bond market is by far the largest securities market in the world, providing investors with virtually limitless investment options. Many investors are familiar with aspects of the market, but as the number of new products grows, even a bond expert is challenged to keep pace. All over the world, a bond is a loan that the bond purchaser, or bondholder, makes to the bond issuer. Governments, corporations and municipalities issue bonds when they need capital. (www.pimco.com, Bonds Basics, June 2005)

Bonds can be traded in the open market after they are issued. When listed on the open market, a bond's **price** and **yield** determine its value. A bond's yield is the actual annual return an investor can expect if the bond is held to maturity. This is one of the factors influencing the price of a bond. The evolution of the yield on European bond market is presented in figure no.1. (www.pimco.com, Bonds Basics, June 2005)

In the 1970s, the bond market began to evolve as investors learned there was money to be made by trading bonds in the open market. As investor interest in bonds grew (and faster computers made bond math easier), finance professionals created innovative ways for borrowers to tap the bond market for funds and new ways for investors to tailor their exposure to risk and return potential. (www.pimco.com, Bonds Basics, June 2005)

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Source: www.eurocapitalmarket.org/statistics

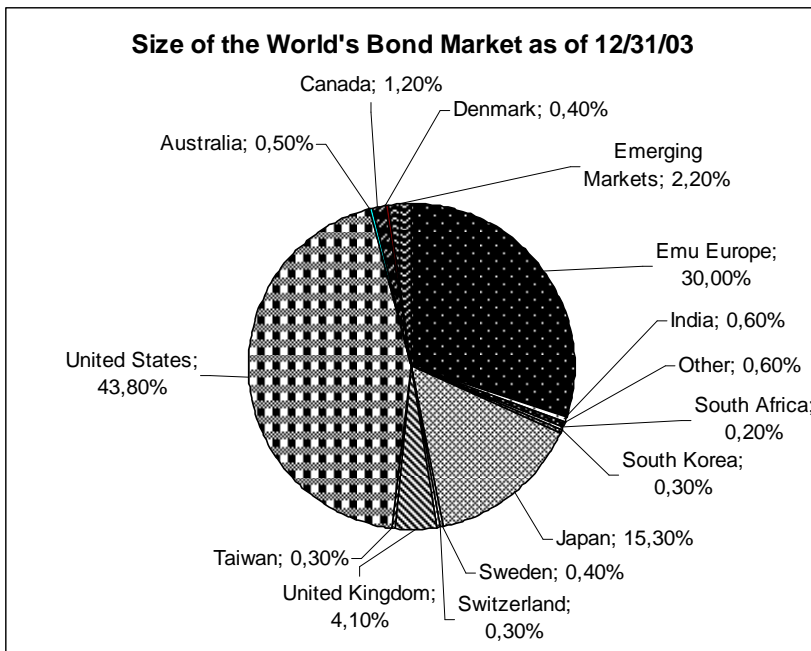
Figure 1.

The bond market plays a very important role in the financial systems of today's economies. Bond markets bring lenders and borrowers together. They allow lenders to invest in relatively low risk assets and borrowers to obtain funds in relatively liquid markets. Bond markets are important in determining the prices of other assets, and bank interest rates usually follow market-determined interest rates on bonds. The prices determined in the bond markets affect household decisions to save and the corporate sector's investment decisions. In the United States, the bond market is about the same size as the stock market. In Europe, bonds amount to approximately two-thirds of the total amount of securities outstanding. But the distribution of the total debt differs significantly between Europe and the United States. In Europe, the bond market is dominated by government bonds and bonds issued by financial intermediaries. In the United States, the proportion of bonds issued by the non-financial corporate sector is much larger. In addition, the major components of this market are the municipal bonds and the agency bonds. For the bond market, this means both efficiency and liquidity. Efficient bond prices, incorporating all available information, will be better signals to investors and savers than if the markets did not incorporate relevant information fully into prices. Liquid bond markets bring transactions costs down for investors, who therefore achieve greater gains from trade, and they minimize the cost of funds to firms. Despite the key role of the bond markets, there has been much less academic attention devoted to bond markets than to equity markets. The big gap is in empirical work, and the main reason for this is data availability. Since the 1990s, several stock exchanges (including the London Stock Exchange, the New York Stock Exchange, and the Paris Bourse) have disseminated rich, high-frequency data. (Bias B.&al., 2006)

THE ROMANIAN BOND MARKET

The U.S. has long dominated the world's bond market, but globalization and other factors have brought significant changes in the global bond mix and opened new opportunities for those with the know-how and resources to find them. (www.pimco.com, Bonds Basics, May 2004)

Bonds issued in the U.S. accounted at the level of 2003, for less than half of the global bond market (figure no.2), due largely to rising issuance of euro-denominated corporate debt and the decline in U.S. government debt that resulted from budget surpluses. For investors, the growth of the international bond market brings a wealth of new opportunities for diversification that cannot be ignored, particularly in light of the dollar decline. In other words, avoiding non-U.S. bonds is no longer an option because it limits investors to only half of the available universe of bonds. (www.pimco.com, Bonds Basics, May 2006)



Source: Bank of International Settlements

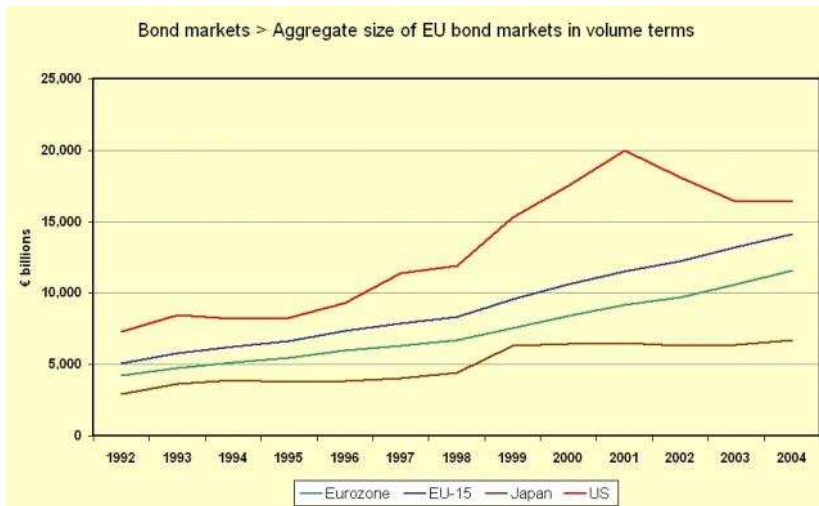
Figure 2.

In the U.S., mortgage-related instruments represent the largest sector of the domestic bond market, accounting for nearly 24% of outstanding debt versus about 20% for corporate bonds and 16% for Treasuries, according to the U.S. Bond Market Association. That's a significant shift from five years ago, when Treasuries accounted for about 31% of outstanding bond market debt and corporate represented 18% of the market. Current issuance remains concentrated in the corporate and

mortgage-backed sectors, with federal agencies such as Fannie Mae² and Freddie Mac³ also contributing heavy issuance well above that of the U.S. Treasury. (www.pimco.com, Bonds Basics, May 2006)

The European bond market remains dominated by government debt, which represents about 60% of the market versus 29% for corporate bonds and 11% for mortgages. However, corporate debt issuance has surged in Europe, as noted above. The Japanese and U.K. bond markets remain similarly dominated by government debt, though corporate issuance is rising in those markets as well. (www.pimco.com, Bonds Basics, May 2006)

In other countries the high-yield bond market only began to develop in the late 1990s. It remains well below the U.S. market (see figure 3). The second largest region of the global high-yield bond market is Europe. In this study, we divide Europe into the UK and the euro area. Other regions with some high-yield bond issuance activity are Canada, Latin America and Asia. These regions typically issue in foreign currencies. This study will be focused mainly on issues denominated in the national currency. (de Bondt G., Ibanez D.M., 2005)



Source: www.eurocapitalmarket.org/ statistics

Figure 3.

² FNMA or Fannie Mae is a government-sponsored enterprise, a publicly owned corporation that operates under a Congressional charter with U.S. government oversight. Fannie Mae issues and guarantees mortgage securities. Although its securities are not backed by a U.S. government guarantee, they carry an implied AAA credit rating. (www.pimco.com, Bonds Basics, November 2005)

³ FHLMC or Freddie Mac is also a government-sponsored enterprise. In fact, Freddie is a competitor to Fannie and operates in much the same way. Its securities likewise possess an implied AAA-level credit quality. (www.pimco.com, Bonds Basics, November 2005)

Municipal bonds (munis), which are issued by U.S. state and local governments, are unique among fixed-income asset classes. First, most muni bonds offer tax-exempt income, and second, individuals, rather than institutions, make up the largest investor base. In part because of these characteristics, munis also tend to have certain performance attributes, including higher after-tax returns than other fixed income securities of comparable maturity and credit quality and low volatility relative to other fixed-income sectors. In part because of their unique tax status, municipals can generally provide investors with greater after-tax returns than many taxable bonds, including some Treasuries and corporate bonds with similar credit quality and maturities. (www.pimco.com, Municipal Bonds, March 2006)

Among the municipal bond market, the existence of a mature corporate bond market that includes a developed high-yield bond market appears to be positive for economic development. It allows corporations to raise funds faster and on more flexible terms than would otherwise be available solely from the banking sector. This avenue of corporate finance, which complements the finance provided by bank loans and the equity market, is particularly beneficial for Europe because there are many small and medium-sized firms in Europe. Unlike in the U.S., where the high-yield bond market developed in the early 1980s, in Europe the high-yield segment of the corporate bond market is a phenomenon of the late 1990s. The quick diffusion of high-yield bonds that we see in Europe suggests that, provided there is an adequate legal and accounting system in place, the financial landscape might change within a short time span because of a quick adoption of financial innovations by later-adopting countries. Industrial economies appear, in contrast to emerging market economies, to benefit from the existence of multiple avenues of corporate finance. However, corporations from emerging markets, which often have a credit quality of below investment grade, could also benefit from tapping the bond market, either when corporate profits are under pressure or when banks cut back lending. Thus corporate bond markets could stimulate economic growth. (de Bondt G., Ibanez D.M., 2005)

In the past year or so, in what can only be described charitably as difficult market conditions for equities - until recently - the international bond market has provided very attractive investment opportunities. Europe currently provides the home to a flourishing market in which issuers of fixed income securities from all parts of the credit spectrum can access short or long term funding, in a variety of currencies and maturities to match the denomination and duration of their assets. A great variety of borrowers, comprising sovereign states, agencies, corporations and financial institutions, have come to this market in recent years to raise funds at unprecedented low coupon rates from international investors. The euro denominated corporate bond market has been particularly notable for its enormous growth over the last 5 years, and a Euro denominated high yield (or junk bond) sector has developed, albeit not without teething problems. (Langton J.L., 2003)

These examples illustrate that Europe's bond market has *always* been characterized by innovation and flexibility with securities structured to meet the demands of both issuers and investors alike. The whole year has seen the growth of a thirty-year maturity in the Euro denominated debt market, thus allowing borrowers to lock-in to favorable interest rates and borrowers to look for enhanced yields further out along the curve. This has become very important for pension funds, given the dramatic cutback in government bond issuance, particularly at the long end of the curve where pension funds try to match their long term liabilities with long term assets. The result of all this activity is that the Euro has, during 2003, become the leading currency of new issuance, finally overtaking the might US dollar which has historically dominated the fixed income market. However, its recent slide vis-à-vis the US dollar may well impact somewhat negatively on this trend. (Langton J.L., 2003)

Comparatively with other countries from Central and Easter Europe, Romania started to issue bonds much later. The reason for this delay could be the main regulation – Act no.189/ 1998 which allow the local administrations to use the capital market for borrowing funds and which was adopted only in October 1998, after which the local authorities needed another 2-3 years until the idea of bonds issued in national currencies will be understood. (Pop C., Dumbrava P., 2004)

In the next table it is presented the number of bonds listings in the EU (table no.1).

Table 1.**Number of bonds listings in the EU**

| | 2003 | 2004 | 2005 |
|---------------------------|--------|--------|--------|
| Athens Exchange | 134 | 126 | 115 |
| Borsa Italiana | 509 | 457 | 0 |
| Bratislava Stock Exchange | 70 | 65 | 75 |
| Budapest Stock Exchange | 65 | 97 | 99 |
| Cyprus Stock Exchange | 66 | 74 | 74 |
| Deutsche Borse | 7.215 | 8.240 | 10.002 |
| Euronext | n/d | 3.434 | 3.537 |
| Iceland Stock Exchange | 325 | 341 | 336 |
| Irish Stock Exchange | 3.716 | 6.206 | 8.776 |
| Ljubljana Stock Exchange | 92 | 101 | 99 |
| London Stock Exchange | 9.763 | 10.243 | 10.808 |
| Luxembourg Stock Exchange | 21.285 | 24.292 | 26.206 |
| Malta Stock Exchange | 66 | 72 | 69 |
| OMX Exchanges | 4.035 | 4.032 | 4.072 |
| Oslo Bors | 826 | 861 | 826 |
| Prague Stock Exchange | 47 | 79 | 91 |
| Spanish Exchange (BME) | 2.653 | 2.939 | 28.144 |

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| | | | |
|-----------------------|-------|-------|-------|
| SWX Swiss Exchange | 1.259 | 1.327 | 1.210 |
| Warsaw Stock Exchange | 70 | 81 | 78 |
| Wiener Borse | 2.571 | 2.846 | 2.630 |

Source: www.eurocapitalmarket.org/ statistics

Comparatively with the figures regarding the EU and presented in the table above (the number of bonds listings and the value of bonds trades on EU exchanges), Romania registered during the period 2001-2006, the following evolutions:

Table 2.

| Year | No. of trading sessions | No. of trades | No. of bonds traded | Turnover (EUR) | No. of bonds issuers | No. of new listings of bonds issuers |
|------|-------------------------|---------------|---------------------|----------------|----------------------|--------------------------------------|
| 2001 | 17 | 5 | 45 | 172,83 | 2 | 2 |
| 2002 | 247 | 10 | 59.050 | 238.704,88 | 4 | 2 |
| 2003 | 241 | 39 | 187.870 | 4.556.257,24 | 10 | 8 |
| 2004 | 253 | 1.116 | 530.466 | 71.266.812,93 | 22 | 16 |
| 2005 | 247 | 362 | 199.304 | 29.776.176,53 | 19 | 6 |
| 2006 | 242 | 461 | 2.963.867 | 119.461.646.15 | 19 | 5 |

Source: www.bvb.ro/ statistics

2. Romanian municipal bonds

2.1. General information

The first municipal bonds were issued in October 2001 and from that date on, these financing instruments started to be used more often. As a result, the municipalities which were the first on the list of issuers continue to issue new titles of this kind. Among these, one should also notice the dimension and the characteristics of the Romanian market. Comparatively to the markets from the Central and Eastern Europe, Romania has the advantage of the numbers of trades registered. In the table below, are presented some general information concerning the Romanian municipal bonds.

Table 3.

General information concerning Romanian municipal bonds

| Year | No. of issues | No. of issues listed at BVB ⁴ | Value | | No. of outstanding bonds | No. of investors | | |
|------|---------------|--|-----------------------|-----------|--------------------------|------------------|------------|---------------|
| | | | Mil. RON ⁵ | Mil. Euro | | Total | Individual | Institutional |
| 2001 | 2 | 2 | 1,50 | 0,6 | 150.000 | 187 | 157 | 30 |
| 2002 | 8 | 7 | 12,65 | 4,05 | *438.500 | 332 | 264 | 68 |
| 2003 | 13 | 11 | 46,50 | 12,40 | **545.046 | 478 | 331 | 147 |
| 2004 | 12 | 12 | 81,37 | 20,1 | 760.160 | 94 | 58 | 36 |

⁴ BVB is the abbreviation for Bursa de Valori Bucuresti or Bucharest Stock Exchange. We will use this abbreviation for the present paper to avoid any confusion with Budapest Stock Exchange.

⁵ RON represents Romanian New, the Romania national currency.

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| | | | | | | | | |
|-------|----|----|--------|-------|---------|------|-----|-----|
| 2005 | 5 | 5 | 30,75 | 8,49 | 304.000 | n/a | n/a | n/a |
| 2006 | 3 | 11 | 66,92 | 18,99 | 615.660 | n/a | n/a | n/a |
| Total | 43 | 48 | 239,69 | 32,96 | X | 1091 | 810 | 281 |

Source: www.kmarket.ro and Piata Financiara Review

Notes: * - the number does not include the bonds issued by Breaza

** - the number does not include the bonds issued by Cluj-Napoca in 2003 and by Arad County in 2003

As one can see in the table no. 3, the figure that registered an important growth is the value of municipal bonds, which grew with 174,99 % from 2003 and 643,24 % from 2002. Regarding another figure – the number of investors – this was a little bit over 1000. Even if the data is not complete, the individual investors represent 74,24 % in the total amount and the institutional ones 25,76%.

These figures registered modifications also because the municipal bonds offer superior rates of return to those offered by T-bills or bank deposits.

Another main factor that regards the Romanian municipal bonds is the coupon paid. The coupon is calculated using Bucharest Inter-bank Interest Rates – BUBID and BUBOR⁶. These rates are available on Romanian National Bank website and are reported daily.

The bonds can be framed between the placements from the monetary market (T-bills or bank deposits) and those from the capital market (shares). However, the municipal bond issues reflect, in part, the capital markets' demand for financial instruments for investment, resulting in lower borrowing costs for the municipalities than could have been achieved with bank lending.

All these differences are presented in the table no. 4.

Table 4.

| Year | Annual average (BUBID+BUBOR)/2 | | Annual average premium | | Coupon – annual average | | Interest rate for bank credits – annual average |
|------|--------------------------------|--------|------------------------|-------|-------------------------|--------|---|
| | 3M | 6M | 3M | 6M | 3M | 6M | |
| 2001 | 40,9 % | 41,3 % | 2,50% | - | 43,40% | - | 45,7 % |
| 2002 | 27 % | 28 % | 2,00% | 2,00% | 28,47% | 30,00% | 36,6 % |
| 2003 | 18 % | 17 % | 1,75% | 1,75% | 19,75% | 18,75% | 26,2 % |
| 2004 | 19 % | 18 % | 2,00% | - | 22,00% | - | 25,8 % |
| 2005 | 8,34% | 8,30% | 2,00% | - | 10,22% | 9,25% | 19,19% |
| 2006 | 8,10% | 7,99% | - | - | 9,49% | 9,08% | 14,10%* |

⁶ The formula used by the major part of the local authorities is:

$(\text{BUBID for 3M or 6M} + \text{BUBOR for 3M or 6M}) / 2 + \text{premium}$.

Where M represents the number of months and the interest rate is chosen in correlation with the coupon frequency – quarterly or semiannually.

The only exceptions are the municipal bonds issued by city of Breaza which used the Romanian National Bank interest rate as reference point, and the municipal bonds issued by the city of Arad (or Arad I) which have a fixed coupon of 14%/ year.

Source: www.bnro.ro, www.kmarket.ro, Piata Financiara Review

* the Interest rate for bank credits – annual average is calculated until October for the year 2006

As the table shows, the municipal bonds are cheaper than bank credits and the bonds are also a better investment alternative than T-bills, offer an even higher return compared to bank deposits and a positive return compared to annual inflation (table no. 5).

Table 5.

Municipal bond compared with other returns

| Year | Annual average (BUBID+BUBOR)/2 | | Interest rate for bank deposits – annual average | T-bills interest rate – annual average | Inflation – annual average |
|------|--------------------------------|--------|--|--|----------------------------|
| | 3M | 6M | | | |
| 2001 | 40,9 % | 41,3 % | 26,2% | 42,2% | 34,5% |
| 2002 | 27 % | 28 % | 18,4% | 27,2% | 22,5% |
| 2003 | 18 % | 17 % | 10,8% | 16,2% | 15,3% |
| 2004 | 19 % | 18 % | 11,3% | 17,85% | 11,9% |
| 2005 | 8,34% | 8,30% | 6,22% | 6,43% | 9% |
| 2006 | 8,10% | 7,99% | 4,69%* | n/a | 6,75%** |

Source: www.bnro.ro, www.kmarket.ro, Piata Financiara Review

* the Interest rate for bank deposits – annual average is calculated until October for the year 2006

** the Inflation – annual average is calculated until November for the year 2006

2.2. The secondary market for the Romanian municipal bonds

Following up, this paper will present the Romanian municipal bond evolution on the secondary market (BVB), from 2001 to 2006 (table no.6).

Table 6.

Summary of municipal bonds traded at Bucharest Stock Exchange

| Year | No. of days when trades occurred | No. of trades | Volume | Value | |
|------|----------------------------------|---------------|--------|-------------|-------------|
| | | | | Million RON | Euro |
| 2001 | 4 | 5 | 45 | 0,005 | 184,4 |
| 2002 | 6 | 10 | 59050 | 0,78 | 250.414,3 |
| 2003 | 11 | 12 | 29310 | 1,28 | 340.114,5 |
| 2004 | 36 | 85 | 51945 | 5,33 | 1.316.231,6 |
| 2005 | 40 | 60 | 25632 | 2,56 | 705.359,6 |
| 2006 | 22 | 61 | 81069 | 7,24 | 2.052.947,9 |

Source: BVB, www.bvb.ro

➤ 2001 – the first municipal bonds issued by Predeal (PRD03) and Mangalia (MNG03) with a total value of 1,5 million RON (0.6 million EURO);

➤ 2002 – new municipal bonds issues by Alba-Iulia (ALB04), Zalău (ZAL04) among with those from Predeal and Mangalia; their total value was registered at 12,65 million RON (4.05 million EURO), which represents a 843, 33% rise from 2001;

➤ 2003 – on BVB there were registered 8 new bonds issuers (Cluj –Napoca CLJ03, Predeal with a new bond issued PRD06, Sebes SEB04, Bacau BAC05, Targu-Mures TGM05, Timisoara TIM05, Oradea ORD06 and Bistrita BIS05); the total value of the bonds issued was 46,5 million RON (12.4 million EURO);

➤ 2004 – was one of the best years for BVB; the municipal bond market registered an important growth (12 new bonds were issued and the total value was 81,37 million RON which represents 20.10 million EURO);

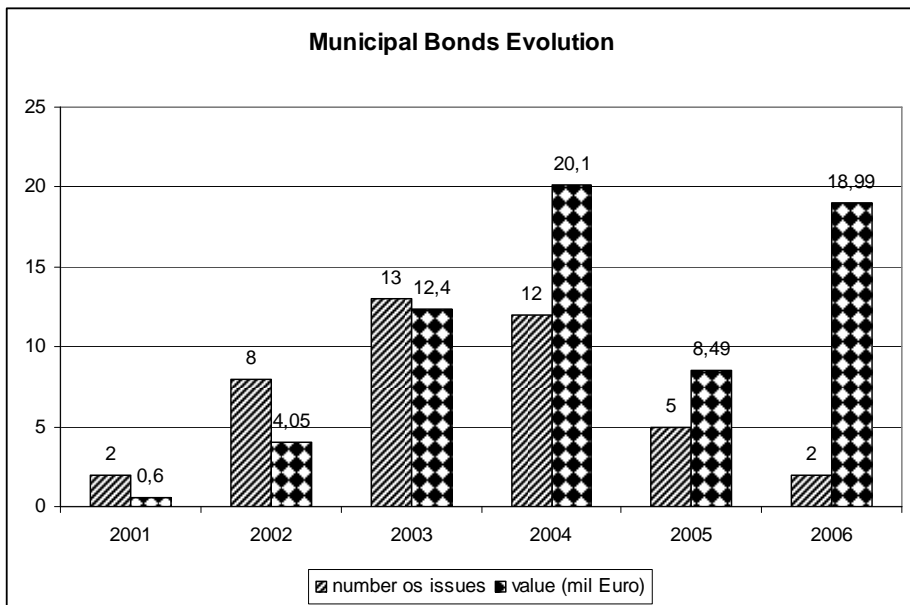


Figure 4.

➤ 2005 – the local authorities issued new municipal bonds, like Deva (DEV08), Bacau (BAC08), Timisoara (a second issue: TIM11), Aiud (also a second issue AIU08) and Sacele (SAC07 - the last one issued in 2005);

➤ 2006 – there where three new municipal bonds issued, and the values registered this year where on behalf on the following municipalities: Oradea (ORD10 and ORD06), Timisoara (TIM11), Bacau (BAC08), Bistrita (BIS08), Navodari (NAV09), Medgidia (MED09), Sebes (SEB07), Sacele (SAC07), Aiud (AIU08) and Deva (DEV08 and DEV08A).

After observing this evolution, the following question could be asked: “Why is Bucharest absent from the Romanian municipal bond market?” It seems that Bucharest will launch its issue only on external markets because it is considered that on those markets it will have better lending conditions. But even if the rating agency Standards&Poor’s gave Bucharest a BB rating, the bonds issue is being delayed because of some legal problems.

3. Romanian corporate bonds

3.1. General information

The other categories of bonds issued on the Romanian capital market are the corporate bonds. These types of bonds often pay higher rates than government or municipal bonds, because they tend to be riskier. In theory, bonds are traded on major exchange and offer the opportunity to invest in a variety of economic sectors. Within the broad spectrum of corporate bonds there is a wide divergence of risk and potential yield. Corporate bonds can improve the diversification to an equity portfolio as well as diversify a fixed income portfolio of government bonds or other fixed income securities, have the potential to provide a steady income and are often more liquid than other securities.

The first corporate bonds were issued in May 2003 and general information concerning them is presented in table no. 7.

Table 7.

General information concerning Romanian corporate bonds

| Year | No. of issues | No. of issues listed at BVB ⁷ | Value | | No. of outstanding bonds |
|-------|---------------|--|--------------------------|-----------|--------------------------|
| | | | Million RON ⁸ | Mil. Euro | |
| 2003 | 2 | 1 | 4,98 | 1.32 | 49.800 |
| 2004 | 5 | 1 | 190,25 | 46.95 | 20.000 |
| 2005 | 2 | 0 | 103,08 | 28.45 | 15.000 |
| 2006 | 6 | 2 | 561,79 | 159.40 | 892.922 |
| Total | 15 | 4 | 860,10 | 236,12 | 975.735 |

Source: www.kmarket.ro and Piata Financiara Review

The evolution shows that in 2006 were registered the highest value, but the lowest one was registered in 2003. Compared with the municipal bonds, the corporate bonds in registered a higher value, especially in the last years. All these happen because the fact that nowadays much more companies tend to appeal to corporate bonds. One of the reasons for which this way of lending is preferred is

⁷ BVB is the abbreviation for Bursa de Valori Bucuresti or Bucharest Stock Exchange. We will use this abbreviation for the present paper to avoid any confusion with Budapest Stock Exchange.

⁸ RON represents Romanian New, the Romania national currency.

because the corporate bond issues reflect, in part, the capital markets' demand for financial instruments for investment, resulting in lower borrowing costs for the municipalities than could have been achieved with bank lending. All these differences between the corporate bonds and the interest rate for bank credits or deposits on one hand, and T-bills interest rate on the other are presented in table no.4 and table no.5 (as they are the same for municipal and corporate bonds).

3.2. The secondary market for the Romanian corporate bonds

Since May 2003 a secondary market was established at Bucharest Stock Exchange for the corporate bonds. The evolution is presented in the table below (table no. 8)

Table 8.

Summary of corporate bonds traded at Bucharest Stock Exchange

| Year | No. of days when trades occurred | No. of trades | Volume | Value | |
|------|----------------------------------|---------------|---------|-------------|---------------|
| | | | | Million RON | Euro |
| 2003 | 14 | 25 | 560 | 0,58 | 15.433,36 |
| 2004 | 82 | 189 | 66.191 | 48,03 | 11.849.331,3 |
| 2005 | 125 | 274 | 171.475 | 104,86 | 28.940.953,2 |
| 2006 | 122 | 245 | 426.539 | 828,05 | 234.941.140.2 |

Source: BVB, www.bvb.ro

➤ 2003 - the first corporate bonds issued by Impact SA Bucuresti (IMP05) with a total value of 4,98 million RON (1.32 million EURO);

➤ 2004 – 5 new corporate bonds were issued (Raiffeisen Bank RZB07A, BRD-GSC BRD07A, BCR Leasing BCL07, TBI leasing TBI06, Finansbank FBR07A) with a total value of 190,2,5 million RON (46.95 million EURO);

➤ 2005 – this year did not bring major changes on the corporate bonds market, on which only one issue was registered (Hexol Lubricants: HXL07); the total value was 103,08 million RON (28.45 million EURO) with 87,17 million RON less than in 2004;

➤ 2006 – 6 new corporate bonds were issued (Romanian Commercial Bank, Carpatica Commercial Bank BCC09, Avicola Bucharest, International Bank for Reconstruction and Development IBRD09, Procredit Bank and International Leasing C2005); from these 6 new bond only two are listed and were traded during the year 2006: Carpatica Commercial Bank BCC09 and International Bank for Reconstruction and Development IBRD09 with a total value of 561,79 million RON (159.40 million EURO).

THE ROMANIAN BOND MARKET

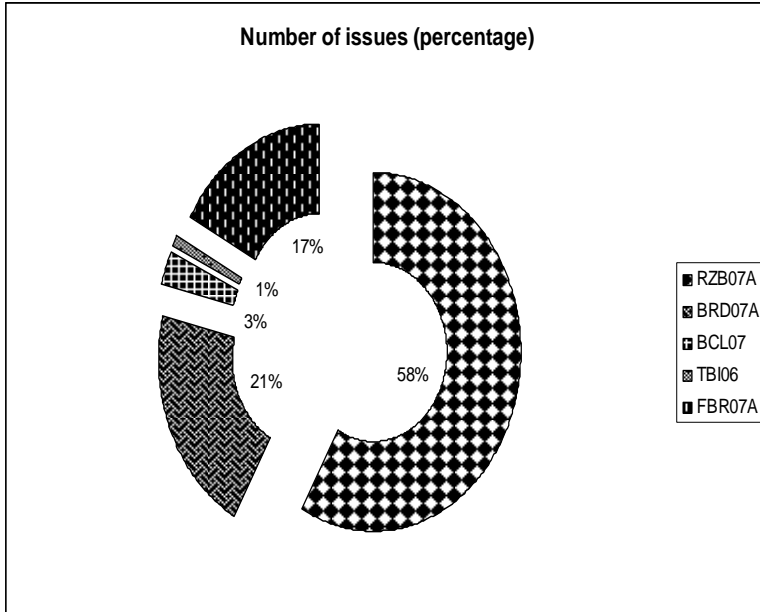


Figure 5.

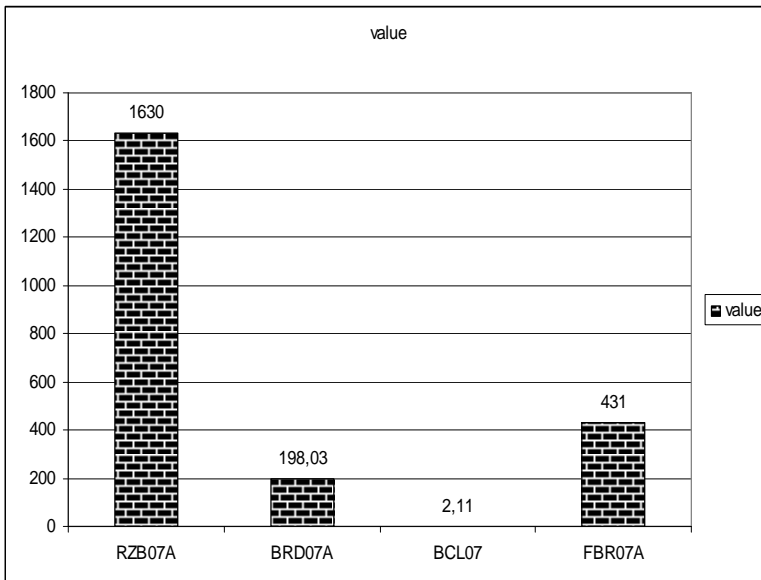


Figure 6.

The Romanian corporate bonds value evolution will be presented in the figure below.

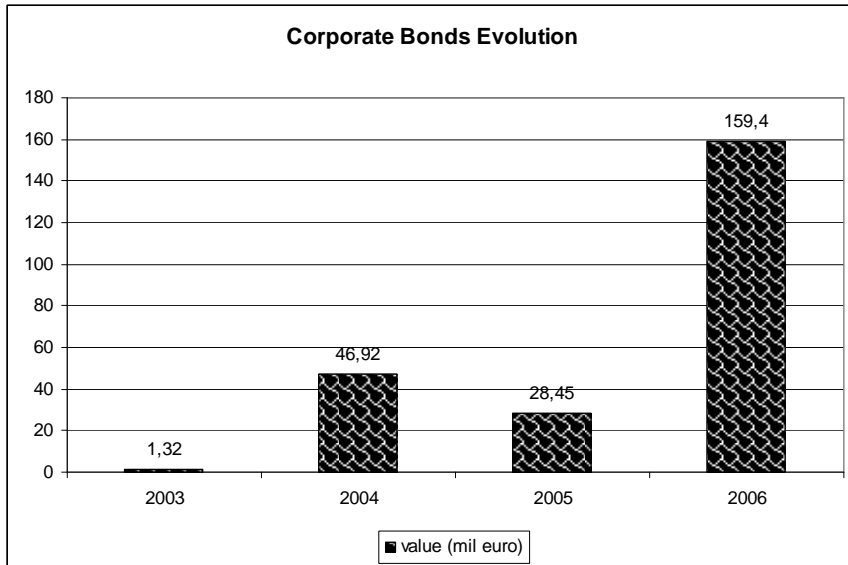


Figure 7.

4. Conclusions

After the research made in this paper, it can be observed that the Romanian bond market looks more alike to the United States market, than to the European one. This is because the fact that the municipal bonds on the Romanian market are not so well traded compared to the corporate sector.

The Romanian bonds market is underdeveloped and has a low liquidity, even if in 2006 IBRD has issued international bonds, with a total value of 526,57 million RON.

The principal factors that retain the bonds market to this level are:

- the lack of rating on the Romanian market;
- the lack of a yield curve, which on the Romanian market is relatively substituted by BUBID and BUBOR; the only problem is that these two are not used everyone.
- after the bonds market development in 2004, starting with the year 2005 the banks began to target the municipalities as their own customers and also began to offer better credit conditions; as a result to this fact the number of bonds started to decline.

The experts estimate that the number and the worth of bonds will climb in the few years ahead and also the fact that the bonds will have a yield higher than that of bank deposits and corporative bonds, and so institutional investors have

shown much interest in them. City halls, whose financial strength comes from local taxes, guarantee that the money invested plus the interests will be paid back to the investors. For example, the President of consultancy company VMB Partners, Viorel Udma, expects the yield of municipal bonds to stand at 8 percent, while banks generally pay 5-6 percent worth of interests to deposits, on average.

If the question “Which are the facts that could favor the development of the primary and the secondary bond market in Romania?” would pop up, the answer would be the following one: on every market one can find two main actors: the buyers and the sellers, and when the local authorities will be able to develop their own financial and economic system, the bonds’ value and maturity will grow. But the most important fact for the market to get developed is the number of important investors with a long-term thinking. Also without these important investors, the Romanian market would reach its limits.

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DECISION SUPPORT SYSTEMS: CONCEPTS, DEFINITIONS AND TYPOLOGIES

ROZALIA VERONICA RUS¹

ABSTRACT. There is no definition unanimously accepted for Decision Support System. First definitions were given around 1970 and were pretty broad. In this article we will analyse some of the most important decision support systems' definitions and we will overview the main characteristics of this type of information systems. The appearance of the new technologies supported the evolution and development of Decision Support Systems and researchers in this field tried to adapt these definitions to the new trends in technology. In the final part of the paper we will present the fundamental structure of a DSS application and main DSS typologies.

Key words: Decision Support Systems, unstructured problems, semi-structured problems, data, models.

In this paper we want to make a detailed analysis of some of the main Decision Support Systems' definitions and typologies. This material will use the analytical descriptive method based on a reach specialty bibliography, especially from North – American space. We will also use content analysis method and observation method in our scientific research.

According to D.J. Power Decision Support Systems research began in the late 1960². Decision Support Systems (DSS) appeared as a naturally necessity of the American corporations' management because it was obvious that the information products produced by Management Information Systems (MIS) were not meeting many of the decision-making needs of management. The major role for this new type of information systems was to provide ad hoc reports and interactive support for managerial end users. Nowadays, these systems are used on a large scale in United States of America and on a small scale in Occidental Europe being, unfortunately, almost absent in Romanian private and public organisations. For a better understanding of Decision Support System concept next we will present several definitions.

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² Power, D.J., *A Brief History of Decision Support Systems*. DSSResources.COM, World Wide Web, <http://DSSResources.COM/history/dsshhistory.html> , version 2.8, May 31, 2003.

One of the earliest attempts to describe the concept of Decision Support Systems (DSS) was that of Gorry G. A. and Scott-Morton M. S. (1971). They described these new systems as "interactive computer-based systems which help decision makers utilize data and models to solve unstructured problems."³ In this definition appear the concepts of *data*, *model* and *unstructured problem*. To understand this definition we have to explain the *unstructured problem* concept. We will start by presenting Gorry and Scott-Morton's definition of structured problem: "a fully structured problem is one in which all three phases of any decision process – intelligence, design or choice – are structured. That is, we can specify algorithms, or decision rules, that will allow us to find the problem, design alternative solution, and select the best solution."⁴ Structured problems are repetitive and routine and require little judgment, evaluation, or insight. This kind of problems can be solved applying known formulas in which the values of the key variables are also known. In structured problems the decision making process can be easily automated with IT. Unstructured problems are novel and nonroutine and require considerable judgment, evaluation, and human creativity. Unstructured problems cannot be solved with formulas and values of some key variables are not known, so these problems are very difficult to automate with IT. Semi-structured problems contain the elements of both structured and unstructured problems and can be solved using both human judgment and computers. Gorry and Scott-Morton classified the information systems by the degree of structure involved in the processes. Most definitions from the beginning of '70s paid attention to the task structuredness and to the problem of distinguishing decision support systems from the other management support systems.

Another definition is the one given by T.P. Gerrity. He defined Decision Support Systems as: „an effective blend of human intelligence, information technology, and software, which interact closely to solve complex problems”⁵. This is a general definition, and the term “complex” can be interpreted in too many ways. Keen P. G. and Scott-Morton gave a similar definition in 1978: “Decision support systems couple the intellectual resources of individuals with the capabilities of the computer to improve the quality of decisions. It is a computer-based support system for management decision-makers who deal with semi-structured problems.”⁶ The key words in this definition are: *intellectual resources*, *quality of decisions* and *semi-structured problems*. Keen and Scott-Morton presented also in their book a definition which synthesised the definitions and ideas of Information System researchers in the 1970s: “Decision support implies the use of computers to:(1)

³ apud, Mora Manuel, Forgionne A. Guisseppi, Gupta N. D. Jatinder, *Decision Making Support Systems: Achievements, Trends and Challenges for the New Decade*, Idea Group Publishing, 2003, p. 102.

⁴ apud, Gray, Paul (editor), *Decision Support And Executive Information Systems*, Prentice Hall International, Inc., New Jersey, 1994, p.10.

⁵ apud, Kroenke, David, Hatch, Richard, *Management Information Systems*, third edition, Mitchell McGraw-Hill, United States of America, 1994, p. 688.

⁶ Zaharie, Dorin, Albescu, Felicia, Bojan, Irina, Ivancenco, Veronica, Vasilescu, Corina, *Sisteme informatice pentru asistarea deciziei*, DualTech, 2001, p. 18.

assist managers in their decision process for semi-structured tasks, (2) support rather than replace managerial judgement and (3) improve the effectiveness of decision making rather than its efficiency.”⁷ In these later definitions, the area of suitable problem types is broadened to include semi-structured problems, and greater importance is given to the role of the intellectual resources of individuals. We also see a shift from solving problems to assisting and supporting managers in decision making process and improving the quality of decisions. Some researchers sustained that DSS is useful only for the structured parts of decision problems, but humans must solve the unstructured parts.

As a synthesis of these definitions we consider that Decision Support Systems are a major category of information systems which represent an integrated act between human intellectual resources and computers capability having as main objectives to support and improve decision-making process. The quality of the decision depends, in a large measure, of the manager’s experience, knowledge, intuition and judgment. The system gives certain solutions but the final decision and the implementation of the decision belongs to the manager. Besides coherence and exactness, Decision Support Systems offer another extraordinary parameter represented by the reduction of the necessary time to make a decision. The main characteristics of DSS are:

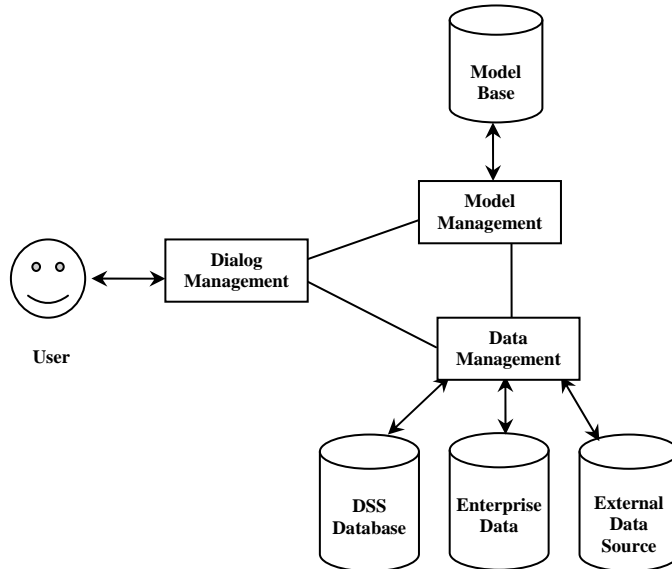
- DSS support decisions;
- are interactive computer-based information systems;
- are easy to use;
- are designed to support semistructured and unstructured problem analysis;
- provide support for all stages of decision making process: intelligence, design, choice and implementation;
- are used by managers at different levels: senior managers, middle managers, managers at operational level;
- contain broad databases;
- contain modeling and analytic capabilities;
- provide support for group decisions.

The benefits of DSS vary because of the complex situational nature of tasks they support and because of their personalized users. We will overview some of the Decision Support Systems’ advantages:

- increased productivity;
- increased problems understanding;
- increased speed;
- increased flexibility;
- reduced problem complexity;
- reduced cost.

⁷ apud, Mora Manuel, Forgionne A. Guisseppi, Gupta N. D. Jatinder, *Decision Making Support Systems: Achievements, Trends and Challenges for the New Decade*, Idea Group Publishing, 2003, p. 51.

DSSs are not only theoretical concepts but also have a large practical application. DSSs vary in application and complexity but they all share specific features. In general, decision support systems applications are made up of three components: model management, data management, and dialog management (user interface management). The fundamental structure of a DSS application is represented in the next figure ⁸ (Ariav Gad, M. J. Ginzberg):



The Model Management component: consist of both the DSS models and the DSS model management system. A model is a simplified representation of some event, fact or situation. DSS use statistical models, analytical models, accounting and financial models, representational models, optimization models, etc. The model management system stores and maintains the DSS's models. Its function of managing models is similar to that of a database management system.

The Data Management component: performs the function of storing and maintaining the information that are used by DSS. Consist of both the DSS information (data) and DSS database management system. The information used by DSS can come from: organizational database, external sources and enterprise data.

The Dialog Management component: consist of the user interface and the user interface management system. The user interface is an important component because is the part of the system users see, trough it they enter information, commands, and models.

⁸ Apud, Kroenke, David, Hatch, Richard, *Management Information Systems*, third edition, Mitchell McGraw-Hill, United States of America, 1994, P. 689

More and more DSS include also a *Knowledge Management component* which provides the necessary expertise and knowledge for resolving difficult and complex problems.

Some DSS focus on data, some on models, some on knowledge and some on facilitating communications and collaboration. We can classify DSS applications in many ways. One of the classifications is based on the dominant components of DSS application. Power (2003) identified five specialized types of DSS:

1. *Data-driven DSS*: use databases from different applications and support decision-making process by providing summarized information to managers. Usually, data are stored in a data warehouse and are analysed with OLAP (Online analytical processing) tools and data mining tools. Business intelligence systems linked to a data warehouse are examples of data-driven DSS.

2. *Model-driven DSS*: include systems that use accounting and financial models, representational models and optimization models. Model-driven DSS emphasize access to and manipulation of a model. The first DSS were model-driven and were separated from other information systems.

3. *Knowledge-driven DSS*: are based on Artificial Intelligence technology and contain specialized problem-solving expertise which consists of knowledge about a particular domain, understanding of problems, and skill at solving those problems. Comparing with the other DSS, these systems can suggest or recommend actions to managers.

4. *Document-driven DSS*: integrate a variety of storage and processing technologies to provide complete document retrieval and analysis. The components of these systems are the document base and the search tools that create text summaries and rate document relevance. Some of the technologies used in *document-driven DSS* systems are hypertext, intelligent agents and web.

5. *Communications-driven DSS*: systems built using communication, collaboration and decision support technologies.

Decision support systems are gaining an increased popularity in various domains, including business, engineering, the military, and medicine. Modern DSS provide managers a wide range of capabilities. It can aid human cognitive deficiencies by integrating various sources of information, providing intelligent access to relevant knowledge and aiding the process of structuring decisions. Proper application of decision-making tools increases productivity, efficiency, and effectiveness, and gives many businesses a comparative advantage over their competitors, allowing them to make optimal choices for technological processes and their parameters, planning business operations, logistics, or investments.

At the early 70's there were a lot of articles on DSS which tried to define this new term. In the following years the accent was put on defining structured and unstructured problems and on distinguishing Decision Support Systems from Management Information Systems and Transaction Processing Systems. Finally, the conclusion was that the degree of problem structuredness is not so relevant in

the definition of DSS because a problem become more structured as we know more about it and about the way of solving it. In time any unstructured problem may become structured. DSS are perceived in different ways by managers, IT specialist and users. For a manager the definitions and classifications of DSS are not so important, they have some expectations from these systems such us: timeless information, easiness of usage, accuracy and format of results, etc. In the last ten years there were not major contributions in DSS field, although the implementation of the new technologies and tools like client-server, web, OLAP (Online analytical processing), artificial intelligence, data warehouse and data mining have supported the evolution of DSS.

More and more frequent, DSS are integrated in larger software systems such as ERP (Enterprise Resource Planning), systems that cover all domains of activities in an organization, from operational level to strategic level. ERP are produced by specialized companies and are customized for business users. An example is the product of SAP-AG Germany, Sap-R3. These systems have multiple components for decision support from production control to strategic management. Another important trend is to include the DSS in Business Intelligence Systems.

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ROMANIA'S TOURISM SECTOR: ACTIVITY AND EMPLOYMENT

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ABSTRACT. The present paper aims to analyze the situation of Romania's tourism activity, beginning with 1990, when our country began its transition from a centralized economy towards a market economy. The main purpose of this analysis is generated by the fact that our country enjoys a great development potential for this sector. Another aspect that raised our interest is that related to the development of the tourism accommodation facilities and to that of the employment of this sector. Finally, we intend to correlate the three analyzed factors for identifying the possible solutions for reestablishing tourism's situation and that of the employment.

Key words: tourism, employment, services, activity, quality

Introduction

Ever since 1990, the Romanian authorities have declared tourism a national priority. Still, the sad reality is that this very important and valuable asset of our country continues to be underdeveloped. Moreover, the services' sector has been identified as one of the most important sources for Romania's economic growth and social development. We believe it is necessary to approach tourism from two perspectives. On one hand, it contributes to the national incomes' increase, mainly based on the expenditures of both the Romanian and the foreign tourists. On the other hand, tourism may generate a major impact upon employment.

Tourism, as part of the tertiary sector of the economy, also known as the industry of services, represents, according to the specialized literature "the activity of carrying out services, which handles the organization of enjoyment trips or for any other purpose, carried out through the means of specialized organizations, traveling offices etc, or on its own, for a time span greater than 24 hours. Tourism includes all the activities that serve and satisfy the consumption and services needs of the tourists." [Constantinescu, 1974, p. 782., authors translation]. There are different purposes for tourist activities: recreation, healing, treatment, participating at different events (congresses, symposiums, conferences, seminars, trainings etc), business trips etc. There are also connected services implied by tourism: transportation,

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health, and medical insurances, medical and healing services, feeding services etc; all of these eventually generate the development of the specialized employees.

Our paper focuses on three matters. First of all, we shall discuss the development of Romania's tourism throughout the country's economic transition (from a centralized economy towards a market economy). Next, we will analyze the employment in the tertiary sector, concentrating on the one of tourism. Finally, we intend to determine the impact of this sector's evolution upon the development of its employment.

Materials and Methods

As the present paper aims to cover problems related to tourism, to the sector's employment and to the connection of these elements, we have mainly used data and facts offered by the Romanian National Statistics Institute (INS) in its *Statistical Yearbooks of Romania*, issued between 2002 and 2005. Due to the fact that the Institute only offers poor information about this sector we have also made use of pieces of information gathered from alternative sources, basically the specialized economic publications which present the results of different researches and studies carried out by other institutions, such as the National Institute for Tourism Research and Development (INCDT) or the National Authority for Tourism. We have also used other types of documents, such as the governmental national development plan for 2007-2013, that was recently issued. Our research methodology is based on document analyses, as well as on our own calculations and facts' interpretations and correlations.

Results and Discussions

Because of the fact that Romania's tourism cannot be analyzed without taking into consideration its potential as a tourist destination, we believe it is necessary to briefly sketch it. In this respect we will refer to the main competitive advantages that were identified by the national authorities [MMSSF, 2006, p. 72] for our country's tourism development:

- ▲ the variety of its forms of relief and its harmonious and even distribution (approximately 1/3 plains, 1/3 plateaus and 1/3 mountains);
- ▲ the presence of the inferior course of the Danube and the unique Danube Delta;
- ▲ the generous seaside coast;
- ▲ the abundance of the mineral water resources – there are 1/3 of Europe's mineral waters in Romania;
- ▲ the temperate-continental climate, with Mediterranean influences in the southern part offers an environment with unique flora and fauna;
- ▲ the advantage of possessing one the largest surface on the European continent, with virgin woods and ecological grasslands;
- ▲ the rural areas with well-preserved local cultures and habits in the daily rural-life.

Basically everyone admits that Romania may be perceived as a unique destination. It enjoys a geographic position that grants it several advantages. On one hand, there are the above-mentioned natural resources, and on the other hand, there also is a huge cultural heritage. These elements interweave each other and generate a great tourism potential that has to be properly exploited. Still, we also need to point out the fact that Romania has inherited from the communist times a series of problems. The main ones are those related to the quality of the tourism services:

- ▲ the state owned accommodation facilities were not stimulated by any form of competition, as there were no other forms of property and at the same time, tourists only had limited possibilities of choice;
- ▲ the mass tourism, that was encouraged by the communists, was based on lower class accommodation facilities (mainly 1 and 2 star hotels);
- ▲ the services that were offered in tourism activities were of poor quality and basically focused on accommodating and feeding tourists;
- ▲ the employees were poorly trained and were merely interested in offering quality services.

Based on the statistic data and facts offered by the NSI, in the *Statistic Year Books of Romania* of 2003 and 2005, as well as on the figures found in the media, we are going to try to realize a short presentation and analysis of the development of our country's tourism activity between 1990 and January-March 2006; below data illustrate Romania's tourism activity measured at the level of accommodation facilities:

Table 1.
Romania's Tourism Activity (Thousand Persons in Accommodation Facilities)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Jan.- Mar. 2006 |
|------------------------|-----------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----------------------|
| Total | 1229 7 | 9603 | 8015 | 7566 | 7005 | 7070 | 6595 | 5727 | 5552 | 5109 | 4920 | 4875 | 4847 | 5057 | 5860 | 5860 | 1104 |
| Romani ans | 1086 5 | 8309 | 6830 | 6718 | 6149 | 6304 | 5833 | 4894 | 4742 | 4314 | 4053 | 3960 | 3848 | 3952 | 4370 | 4370 | ... |
| Foreign ers | 1432 | 1294 | 1185 | 848 | 856 | 766 | 762 | 833 | 810 | 795 | 867 | 915 | 999 | 1105 | 1490 | 1490 | ... |

Sources: *** "16.3.4 Sosiri ale turiștilor în structurile de primire turistică cu funcțiuni de cazare turistică", *Capitolul 16 Comerț; Turism; Servicii*, în *Anuarul Statistic al României 2003 – Serii de timp 1990-2002*, INS, http://www.insse.ro/anuar_2003/asr2004.htm; *** "20.4 Sosiri ale turiștilor în structurile de primire turistică cu funcțiuni de cazare turistică", *Capitolul 20 Turism*, în *Anuarul Statistic al României 2005*, INS; *** <http://www.wall-street.ro/articol/Turism/15237/In-doar-trei-luni-peste-1-milion-de-turisti-au-venit-in-Romania>.

Table 2.**Romania's International Tourism Between 1990-2004** (Thousand Persons)

| | INS | | | | | | | | | | | | ANT | | |
|------------------------------|-------|------|-------|-------|-------|------|------|------|------|------|------|------|------|------|------|
| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Foreigners' Arrivals | 6532 | 5359 | 6401 | 5786 | 5898 | 5445 | 5205 | 5149 | 4831 | 5224 | 5264 | 4938 | 4794 | 5595 | 6600 |
| Romanians' Departures | 11275 | 9078 | 10905 | 10575 | 10105 | 5737 | 5748 | 6243 | 6893 | 6274 | 6388 | 6408 | 5757 | 6497 | 6972 |

Sources: *** INS, 2003, "16.3.10 Turismul internațional al României", *Capitolul 16: Comerț; Turism; Servicii*, in *Anuarul Statistic al României 2003*; *** Autoritatea Națională a Turismului din România, http://www.mturism.ro/statistici_turism.php.

Analyzing the above mentioned figures, keeping track of the ones mentioned before, and taking into consideration the fact that during 1990-2002, several trials to promote Romania as an international tourism destination were made (the picture album *Eterna și fascinantă Românie*³ of 1996-1997; the campaign "Come as a Tourist, Leave as a Friend", launched in 1998-1999; the participation to the Washington DC tourism fair in 1999; the projects initiated in 2001-2002 for the promotion of Romania's image; the program "Fabricat în România"⁴ run during 2001-2004; the campaign "România mereu surprinzătoare"⁵ of 2004) we may conclude as follows:

▲ during the time span 1990-1998 Romania's international receiving tourism had a decreasing trend (with two exceptions, 1992 and 1994, when small increases were registered in comparison to the previous years); in 1998 the number of foreign visitors who entered our country represented only 73.95% of the figures of 1990; the main reasons for this situation can be explained through the negative image Romania has abroad, and due to the lack of any serious initiative to promote the country as an international tourism destination (until 1996 or 1997);

▲ the 1998-2000 time span had an ascending trend; by 2000 the number of international tourists had grew by 8.96% compared to 1998 and had reached 80.58% of the figures of 1990; among the probable causes of this increase we may mention: the political change of November 1996, which has lead to the real democratization of Romania and to the improvement of the country's external image; as well as promotion activities based on the album *Eterna și fascinantă Românie* and on the campaign "Come as a Tourist, Leave as a Friend";

³ *Eternal and Fascinating Romania*. [our translation]

⁴ "Made in Romania". [our translation]

⁵ "Romania Always Surprising". [our translation]

▲ the 2000-2002 period did not confirm the same ascending trend; it was characterized by the decline of the number of foreign visitors; by 2002 it registered a decrease by 9.8% compared to 2000, representing only 73.39% of 1990's value; several causes can be identified for this phenomenon: the change of the government in December 2000, the incoherence of the authorities regarding the implementation of a promotion campaign for Romania, scandals linked to the allocation and management of the funds for such approaches, the continuous worsening of the country's image abroad etc;

▲ the years of 2002-2004 registered a new ascending trend; by 2003, figures had increased by 16.68% compared to the previous year, and in 2004 arrivals of foreign tourists had increased again by 17.96%; by 2003 the number of foreign visitors represented 85.63% of that of 1990. In 2004 the number of Romania's international tourists had, for the first time since 1990, reached a greater value than the one of that year; by 2004 there had come to Romania more tourists with 1.01% than in 1990. Among the reasons of this favorable situation we may mention: strengthening of the nation's economy, as our economy tends to fulfill the conditions to become and be declared a true market economy; increasing Romania's attractiveness from the point of view of foreign investments; greater stability of the governmental policies, in the context of the nearing EU integration; fulfillment of the privatization of accommodation facilities and that one of other sectors linked to the hospitality industry; several trials to promote Romania's image, even though incoherent, also played an important role in the increase of the international visitors number;

▲ unfortunately the year of 2005 does not continue to register an ascending trend; it is characterized by a decrease of the foreign visitors' number, by 11.51% as opposed to the previous year; among the possible reasons we may first of all mention the chicken fever that appeared last fall in Romania.

Because of the fact that, for our approach, it is very important to identify tourism attractions and types of destinations that are interesting from the foreigners' perspective, we believe that we need to present a situation regarding tourist activity and the number of visitors for each of the chosen types of destinations. Analyzing the above facts, we may state that in 2004 foreign visitors, who have made use of various types of tourist accommodation facilities, had the following preferences regarding these chosen tourist destinations:

Table 3.

Tourists Accommodated in Specific Facilities per Destination (%)

| Year 2004 | TOTAL | Seaside | Spa | Mountains | Danube Delta | County Residences | Other Towns |
|------------------|--------------|----------------|------------|------------------|---------------------|--------------------------|--------------------|
| Romanians | 100 | 15.68 | 14.91 | 16.82 | 1.33 | 38.69 | 12.57 |
| Foreigners | 100 | 6.18 | 3.31 | 8.54 | 1.18 | 71.30 | 9.49 |

Source: *** INS, 2005, “20.9 Turismul organizat de agențiile de turism, pe acțiuni turistice și zone turistice”, *Capitolul 20: Turism*, in *Anuarul Statistic al României 2005*.

We are now going to analyze the evolution of Romania’s receiving tourism, beginning with the year 1989 and until now. The magazine *AnatMedia*, edited by the National Tourism Agencies’ Association of Romania (ANAT), shortly presents the features of the development of Romania’s tourism in the 1989-2003 time span [Stănciulescu, 2005]:

- ▲ the decrease by 23% of the number of tourism accommodation’s places⁶: 353,000 (1990), respectively 273,000 (2003);
- ▲ the regressive evolution of the net usage of the accommodation capacity coefficient: 58.7% (1989), respectively 34.6% (2003);
- ▲ the decline by 26% of the number of foreign visitors: from 6.5 million in 1989 to 4.8 million in 2003.

Table 4.

Romania’s Tourist Capacity and Accommodation Activity

| Regions/Counties Years | Accommodation Activity | | Arrivals (thousand) | Overnight Stays (thousand) | Net Usage Indexes of the Functioning Capacity |
|-------------------------------|-------------------------------|---|----------------------------|-----------------------------------|--|
| | Existent (places) | Functioning (thousand places-days) | | | |
| 1990 | 353236 | 77022 | 12297 | 44552 | 57.8% |

⁶ Only hotels are taken into consideration, the villas, motels and agrotourism facilities are excluded.

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| Regions/Countries Years | Accommodation Activity | | Arrivals (thousand) | Overnight Stays (thousand) | Net Usage Indexes of the Functioning Capacity |
|----------------------------|------------------------|---|------------------------|----------------------------------|--|
| | Existent (places) | Functioning (thousand places- days) | | | |
| 1995 | 289539 | 53540 | 7070 | 24111 | 45.0% |
| 2000 | 280005 | 50197 | 4920 | 17647 | 35.2% |
| 2001 | 277047 | 51882 | 4875 | 18122 | 34.9% |
| 2002 | 272596 | 50752 | 4847 | 17277 | 34.0% |
| 2003 | 273614 | 51632 | 5057 | 17845 | 34.6% |
| 2004 | 275941 | 53989 | 5639 | 18501 | 34.3% |
| 2005 | ... | 57777 | 5805 | 18373 | 31.8% |
| Jan.-March 2006 | ... | 10908 | 1104 | 2836 | 26.0% |

Sources: *** INS, 2005, "20.16 Capacitatea și activitatea de cazare turistică, pe regiuni de dezvoltare și județe, în anul 2004", *Capitolul 20 Turism*, in *Anuarul Statistic al României 2005*; "Buletine lunare județene", <http://www.insse.ro>. [our calculations]

Based on the figures presented in the table form above, we may state the fact that between the years 1990 and 2004 the number of places in the accommodation facilities has registered a continuous descending trend; by 2004 the total number of accommodation places represented only 78.12% of the one registered in 1990. The same tendency may also be observed in the case of the net usage indexes of the functioning capacity (from 57.8% in 1990, to 31.8% in 2005).

In the next part we are going to analyze the development of the employment in the tertiary sector, and in hotels and restaurants, as well as the evolution of the employees of hotels and restaurants.

Table 5.
The Structure of the Employed Population per Sectors of Activity (%)

| Sector Total/Year | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Primary Sector | 29.7 | 32.9 | 35.9 | 36.4 | 34.4 | 35.4 | 37.6 | 38.1 | 41.2 | 41.4 | 40.9 | 36.2 | 34.8 | 31.6 |
| Secondary Sector | 39.9 | 37.1 | 35.8 | 34.4 | 33.6 | 34.3 | 32 | 30.7 | 28.4 | 27.3 | 27.5 | 29.9 | 29.6 | 31.2 |
| Tertiary Sector | 30.4 | 30 | 28.3 | 29.2 | 32 | 30.3 | 30.4 | 31.2 | 30.4 | 31.3 | 31.6 | 33.9 | 35.7 | 37.2 |

Sources: INS, 2004, "Labor Force Balance – End of Year" in *Anuarul Statistic al României*, "Chapter 3 Labor Market", 3.8 *Civil Employment, by Activity of National Economy at Level of CANE Section*; București; INS, 2005, *Anuarul Statistic al României*, București. [our calculations]

We may show the fact that Romania's employment structure reflected in the above table is different from the one existing in the developed countries, including the situation in the EU-25. The population employed in the tertiary sector has registered both descending and ascending trends throughout the whole 1990-2004 time span. Compared to the situation of the year of 2000, in 2004 the employed peoples' figures registered, in the case of services, an increase from 31.3% to 37.2% but it still is lower than the EU-25 average services' employment rate (which was in 2004 of 69.8% [INS, 2005], almost two times larger than the one registered in our country). Consequently, we may appreciate that in the case of Romania's tertiary sector there is a great potential of employment.

Tourism represents one of the most important components of the tertiary sector. Unfortunately, according to the figures that we have presented above regarding Romania's tourism activity and according to the Romanian Government's National Development Plan [MMSSF, 2006, pp. 73-74] we are entitled to stress the following aspects:

- ▲ the country's tourism has been facing the lack of financial resources, legislative facilities, and of governmental subventions;
- ▲ the scarce development, valorization and promotion of the national tourism resources;
- ▲ the low contribution to the country's GDP;
- ▲ the poor quality of the services offered in tourism;
- ▲ the migration over borders of the tourist services' qualified personnel;
- ▲ the national and regional authorities' incapacity or lack of interest to correlate the demand (both in the case of the Romanians and in that of the foreign visitors) with the supply when it comes to tourism;
- ▲ the lack of attractiveness of our country as a tourist destination, for both Romanian and foreign visitors;
- ▲ the insufficient promotion of the country as a tourist destination.

Further on, we consider we have to analyze the structure of the employment in hotels and restaurants:

Table 6.

The Structure of the Employment in Hotels and Restaurants from 1990 to 2004

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------------------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Thousand persons | | | | | | | | | | | | | | |
| 186 | 213 | 175 | 131 | 136 | 123 | 116 | 130 | 98 | 100 | 93 | 79 | 95 | 105 | 133 |
| 1990=100 (%) | | | | | | | | | | | | | | |
| 100.0 | 114.5 | 94.1 | 70.4 | 73.1 | 66.1 | 62.4 | 69.9 | 52.7 | 53.8 | 50.0 | 42.5 | 51.1 | 56.5 | 71.5 |

Source: *** INS, 2004 and 2005, *Anuarul Statistic al României*, București. [own calculations for the variations of the percentages]

During the period 1992-2001 the employment in hotels and restaurants has registered a continuous decrease; beginning with the year 2002 it has began to increase. We may identify a few causes of this positive trend (most of them being generated beginning with the year of 2002):

- ▲ the increase of the number of Romania's tourists accommodated in accommodation facilities (both Romanians and foreign visitors);
- ▲ the growth of the number of accommodation places;
- ▲ the finalization of the privatization process of the tourist accommodation facilities (almost 92% [MMSSF, 2006, pp.74, 77]);
- ▲ the increase of the brown- and green-field investments' volumes made for the modernization of the tourist resorts and facilities;
- ▲ the improvement of the labor force's quality, due to the specialized training programs.

In order to be able to maintain this ascending trend of the employment in tourism services, we consider that the Romanian authorities have to acknowledge the fact that adequate policies are necessary for creating a healthy, secure and attractive environment for the further development of the investments (especially the green-field ones) in this economic sector, that would eventually lead to the creation of new work places. A better financing of this area would increase the attractiveness of the sector from the employees' perspective, fact that would generate a growth of the competition among the sector's labor force. Therefore, we believe that such a competition generates positive effects upon the quality of the employees, who would offer better services; thus, transforming Romania into a more attractive destination, able to face the competition on the international tourism market.

Conclusions

Romania's main problem related to tourism activities is generated by the fact that the offered services are still of poor quality. Improved services can only be offered in competitive accommodation facilities and by using highly qualified personnel. Romania needs to modernize its facilities and to build new ones of higher quality, and to offer more complex tourism packages and services. At the same time, the development of services raises the need of more employees in this sector. We may say that in order to be able to increase the employment in this sector, the following aspects need to be fulfilled:

- ▲ a more conscious involvement of the national, and especially regional or local, authorities in the process of modernizing and promoting the country's tourist spots and attractions;
- ▲ a better understanding of the Romanian and foreign tourists' needs and desires;
- ▲ a stimulation of the increase of both brown- and green-field investments in this economic sector;

▲ a better correlation between the demand and supply of labor force in the tourism related services;

▲ an improved formation and training of the employees – that can be achieved through high-quality training programs and more customer oriented programs.

Taking into consideration Romania's profile as a tourist destination, we agree with the main development directions identified by the national authorities [MMSSF, 2006, pp.75-79] for the tourism sector of our country. In the next lines, we are going to present the main areas that can and should be exploited and we are going to show the positive influence they would generate upon the employment in the services' sector:

▲ tourism for business and congresses – generated in 2004 the most arrivals in our country (46.6% of the accommodated tourists); it is characterized through a short stay but at the same time it raises the need of modernized facilities, with conference rooms and specialized services and personnel, therefore, we believe it may positively influence the employment in the case of the development of such accommodation facilities;

▲ seaside tourism – this destination seems not to be very attractive for the foreign visitors and unfortunately it also loses market share in favor of other destinations when it comes to the Romanian tourists; it also raises the problem of seasonality, which generates unemployment for the personnel that works on the seaside; to counterfight this problem, the authorities have tried to encourage and sustain this type of tourism through social programs and by also exploiting the low season periods; by this they have managed to positively influence a part of the employed labor force;

▲ mountain tourism – does not have to face the problem of seasonality but it still has an old and underdeveloped infrastructure; from the point of view of the workforce, this kind of tourism generates positive trends, as its continuous development raises the need for new and specialized personnel; the performers of tourism services linked to the mountain areas can and should develop more complex services and should also focus on offering other packages of services connected to this type of tourism, through this they would positively influence the employment of more people (basically this could be an opportunity for involving unemployed people from other sectors in tourism connected services);

▲ spa tourism – registered by 2004 12.1% of all of the accommodated tourists; it is characterized by the longest period of stay and by the most complex offered services; some of Romania's spa resorts fulfill the international standards, this is why the authorities insist on supporting its development; we believe that the further development of this kind of tourism can only generate positive effects upon the employees, because of the fact that it involves very many specialized people who have to perform specific services (beginning with accommodation and feeding, and going all the way to highly specialized medical services);

▲ ecotourism – is a type of tourism that has enjoyed the most spectacular development in the area of the Danube Delta but it also is very appropriate for other areas; we would like to present the types of tourism that can be practiced “under the umbrella” of ecotourism:

- geotourism – Romania enjoys a very large heritage of such tourist attractions: national parks (12), natural parks (13), natural reservations (3, including the Danube Delta), scientific reservations (52), natural monuments (228), natural reservations (527); their true development as tourist spots and their adequate promotion would on one hand attract more tourist and on the other hand would generate the need of employing more specialized people;

- cultural-religious tourism – under this aspect Romania enjoys a huge potential (the UNESCO heritage, the architecture, the ethnography, the folklore, the well-preserved customs, cultures and habits, the processing of wood and clay, the traditional rituals, the daily rural life that can all be experienced in the Romanian villages of Transylvania, Banat, Bucovina, Moldavia, Dobrogea, Muntenia, or Oltenia) but at the same time it faces a very important problem related to the underdeveloped infrastructure; this type of tourism can contribute to the improvement of the life in these areas and may also involve the employment people in services and in areas connected to infrastructure development;

- rural and agrotourism – it may be practiced all year long and implies little investments and financial support; this type of tourism can only generate excellent opportunities for the countryside communities: it leads to a stabilization and localization of the population in rural and mountain areas and to its involvement in performing tourism services; it represents an employment alternative both for the unemployed people of other economic sectors and for the peasants. Moreover, this type of tourism also encourages the development of family-type businesses.

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