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Economic Impact of Religious Tourism in Mardin, Turkey

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Abstract

Following a worldwide trend, the number of religious tourists to the province of Mardin, in Southeastern Turkey has increased continuously during the last decade. Using a combination of methods this study aimed to assess the impact of religious tourism development on the local community and economy. We found that the effect is mainly positive. The hotels have high occupancy rates throughout the year and many new hotels have been built during the last five years. Also most visitors eat in local restaurants at least once a day and patronize local shops and businesses. The development of religious tourism has also led to the creation of many new jobs.

Keywords: religious tourism, pilgrimage, Mardin, Turkey.

Introduction

Visiting religious sites could, perhaps, be considered one of the earliest forms of tourism (Rinschede, 1992; Al-Amin, 2002). Some religions, like Islam, have made pilgrimages to holly places important pillars of their faith. In other religions, like Christianity, although not mandatory, pilgrimages have been practiced regularly for centuries.

A pilgrimage is a travel that is undertaken to a site with religious significance and/or that fulfils a religious or spiritual need (Griffin, 2007; Ambrosio, 2007; Raj and Morpeth, 2007). Alecu (2010) argues

that besides destination and motivation of travel (both religious) pilgrimages are characterized by the low quality of (local) services and very affordable prices (this also in Triantafyllidou et al, 2010).

However, others argue that, whereas in the past pilgrimages were often associated with asceticism and physical penitence, today most pilgrims like to travel more comfortably (Vorzak and Gut, 2009). Pilgrims have changed their spending habits, they are not as frugal as in the past (Wright, 2007). Today they spend more for shopping than any other group of travelers (Bar and Cohen-Hattab, 2003). In Saudi Arabia, for example, religious travelers spend 75% of all tourist expenditure (Euromonitor, 2009).

Also, many of these journeys are multifunctional; today many people attend pilgrimages out of curiosity and to find out more about unknown places (Josan, 2009). Based on the two contemporary aspects we believe that the term “religious tourism” may be more appropriate to describe such journeys to religious sites. A pilgrim visits a religious site as part of his duty for being a faithful member of his or her religion or to fulfill a spiritual need (Collins-Kreiner, 2010a; Sharpley and Sundaram, 2005). The use of the term “tourist”, on the other hand, may suggest “pleasure” as motive. This seems to better describe the situation today as more and more people travel for both religious and recreational reasons (Shinde, 2007, Raj, 2008). How otherwise could we explain the paradox that, while Europe is becoming less and less religious, the number of people visiting religious sites is increasing? Many people are visiting these sites not for their religious significance but rather for their cultural, architectural or historical importance (Griffin, 2002; Sharpley and Sundaram, 2005; Noland and Nolan, 1992; Raj, 2008; Richards and Fernandes, 2007; Santos, 2002). Often times the visitation of religious objectives is combined with other forms of tourism and even shopping (Vukonic, 1996; Swatos, 2006).

Most of the works cited above examine issues of Christian pilgrimages in different parts of the world but an increasing number of more recent studies deal with the economic impact of pilgrimages and religious tourism in Muslim countries such as Palestine (Suleiman and Mohammed, 2011), Jordan (Al Dalaeen et al, 2011), Egypt (Kamil, 2000), Saudi Arabia (Henderson, 2011) and Iran (Okhovat, 2010; Heidarabadi, 2008; Taghvaei et al, 2010).

The scale of religious tourism

Lately the number of worldwide pilgrims and religious tourists has increased significantly (Blackwell 2007; Collins-Kreiner 2010a). The United Nations' World Tourism Organization (UNWTO, 2011) has estimated the number of religious tourists in the world to 600 million of which 50% in Asia and the Pacific and 40% in Europe. Every year about 28 million Hindu pilgrims go to River Gange in Northern India (Singh, 2006). Of the approximately 11.6 million foreign tourists that visited Saudi Arabia in 2008, 50% were motivated by religion. The same year, Mecca alone attracted 6.6 million tourists, most of them religious tourists (Euromonitor 2009). It is predicted that the number of foreign tourists to Saudi Arabia will continue to increase to reach 21 million in 2015 driven mainly by the growth of religious tourism to Mecca and Medina (Euromonitor, 2011).

Millions of tourists visit some of the most famous pilgrimage centers in Europe. The Sanctuary of Our Lady of Lourdes is the most visited shrine in all Christendom with between four and six million arriving here each year. It is estimated that approximately 200 million pilgrims have visited the site since 1860 (Sacred Sites, n.d.). Medjugorje (Bosnia) is another pilgrimage site in Europe visited by more than one million pilgrims annually (Reader, 2007). In Romania, around 500,000 people are involved in religious tourism each year, and if we include also the pilgrims attending great religious celebrations, their number could be as high as 1 million (Vorzsak and Gut, 2009). Also, up to 700,000 Christian pilgrims travel to Israel every year (Reader, 2007).

Development of religious tourism can have strong economic impact on the local community as well as socio-cultural, political and environmental implications (Collins-Kreiner, 2010b; 2010c). Especially when dealing with small communities, the impact of religious tourism upon the economy should not be underestimated (Vukonic, 1998). For example, Lourdes, a small town in Southern France, with a population of 15,000, had in 1987 more than 300 shops, 370 hotels, 28 camping sites, 45 restaurants (in the town itself and the surrounding countryside), eight banks, and 18 big service garages (Vukonic, 1998). The town has three times more rooms than the number of its population and has the greatest number of hotels in France after Paris (Carroll, 2010). Practically we could say that the entire town is involved in servicing the pilgrims.

Excessive growth of religious tourism could put a huge pressure on the existing infrastructure especially in smaller towns and less developed areas but sometimes even in countries with great economic potential. For example, local authorities have restricted the growth of the number of pilgrims to Mecca by placing a quota on each country based on population (Reader, 2007; Henderson, 2011). In spite of this limitation, the number of pilgrims will continue to increase slowly as the supporting infrastructure expands. This led some to question whether this continuous (albeit slow) growth in the number of pilgrims for the Hajj is sustainable.

Overdevelopment of this sector could be a threat to the sustainability of the religious site (Swatos 2006). Wall and Mathieson (2006:9) have warned that, as more and more tourists start visiting the holy sites, their religious significance, which made them famous is being eroded. The presence of large numbers of tourists could inevitably lead to the commercialization or commoditization of the pilgrimage site (Eade, 1992) and could make the practice of religious observance very difficult (Nolan and Nolan, 1992). The situation could be aggravated when the visitors and the locals are of different religion. This situation is especially problematic when the residents are Muslim and the visitors are of a different religion (Henderson 2003). This is why a good planning and management of the site is necessary (Raj and Morpeth, 2007; Rotherham, 2007; Pavicic et al, 2007; Petrillo, 2003).

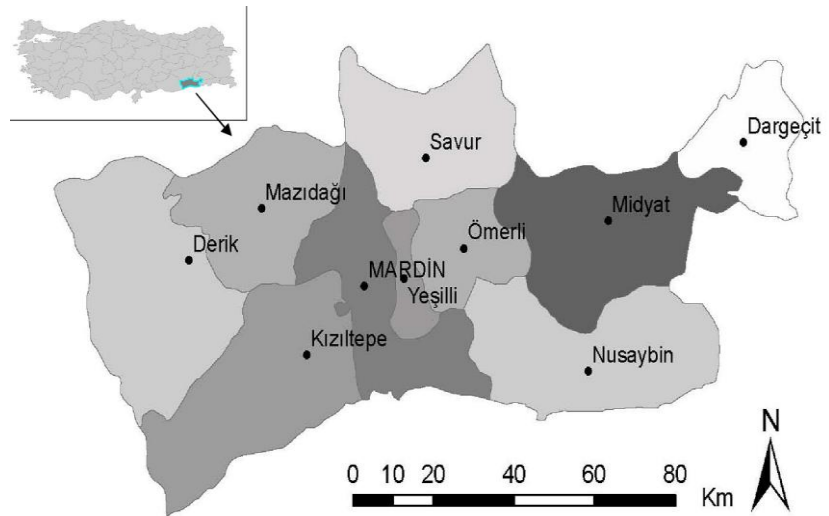
In general, due to perceived economic and social benefits, local population supports the development of religious tourism. Local people on the small Tinos Island, Greece have agreed that religious tourism has a positive effect on the economy through the employment creation, personal income and business opportunities (Terzidou et al, 2008). Also they appreciate the fact that, contrary to other types of tourists, religious tourists do not cause any trouble related to alcoholism and crime (Terzidou et al 2008). They complained mainly about the traffic these tourists generate, overcrowding and congestion. A study by Baedcharoen (2000) on religious tourism in Thailand has revealed that while the local residents strongly believed that tourism has brought many economic and socio-cultural benefits to their community they were ambivalent when asked about the costs.

Research question

The increase in the number of tourists could have both positive and negative effects on the local community and economy. In general,

tourism development is perceived positively by the local community if economic benefits outweigh social costs. A sustainable approach to religious tourism should, therefore, be community based (Rotherham, 2007). This is why the relationship with the local community and the interactions between the local people and tourists need to be investigated. The main issue investigated in this study is the economic impact of religious tourism development in the province of Mardin, Turkey (see figure nr. 1).

Figure nr. 1: The Province of Mardin in Southeastern Turkey



Methodology

In order to collect the data for our study we used a combination of methods. First, we interviewed seven hotel managers in the city of Mardin. Each interview lasted in average 30 minutes. We also talked with the president of Mardin's Tourism Bureau about the number of tourist that visited Mardin, the measures taken by the local authorities to promote tourism in the area and about the benefits to the local area brought by tourism and religious tourism.

Next we used a questionnaire to interview tourists around the major religious sites in Mardin City. The questionnaire had a total of 26 questions and was available in two languages (Turkish and English). Of

the 26 questions, the first five questions were about the socio-demographic characteristics of the surveyed tourists, and three questions were about the origins of the tourists. The survey was administered between 17 and 29 January, 2011. Unfortunately, the timing of our fieldwork was not ideal as the number of tourists is generally lower in January. Moreover the weather was also colder than usual which may have kept many potential tourists from traveling. In total, a number of 19 questionnaires were administered. The lower than expected number of responses determines the use of data collected this way with caution and always in correlation with data from other sources. Unfortunately, some correlations that we initially intended to make were not possible anymore.

The respondents are almost equally divided between men (47%) and women (53%), are young (84% are between 26 and 45 years old) and well-educated (79% having a Bachelor's degree and five percent Master or a doctoral degree). They came from all walks of life but close to one-third of the respondents worked in the education sector while 37% were either self-employed or managers. The majority of our respondents (58%) had a good income that allowed them to save and only eleven percent complained that their income was too small. The reason for being in Mardin is generally for tourism (53%). Also some of them visited for business (31%) and or were in transit to another place (16%).

The majority (74%) of surveyed tourists were visitors coming from Turkey. The rest were foreign tourists from Korea, Germany and Argentina. Based on the results of the survey, 42% of the visitors traveled with a partner to Mardin, 37% of the visitors traveled with family members or with groups of people while the rate of the individual arrivals was lower than others (21%). When we look at the mode of transportation, 47% of the participants went to Mardin by air, 37% by bus and 16% by personal car.

Primary data was complemented by data collected from many secondary sources such as academic articles, newspaper articles, websites, books and tourist brochures. We also spent a great amount of time observing tourists and how they interacted with local people and businesses. Some data was collected through informal discussions with different stakeholders. And, finally, we also examined the location and characteristics of tourism infrastructure (lodging, restaurants, transportation means) as well as how tourism was promoted.

Number of tourists who visited Mardin

In recent years, Mardin, after becoming a candidate on the UNESCO's "World Heritage List", started to attract attention not only in Turkey but also abroad (Koçoğlu, 2006). This situation has contributed to tourism development in Mardin. Due to UNESCO representation, interest and demand in tourism in Mardin has constantly increased over the years. The table below (table nr.1) shows the increase in the number of tourists visiting Mardin between 2001 and 2010.

Table nr. 1: The number of foreign tourists visiting Mardin and Turkey between 2001 and 2010

	Total number of tourists 2001	Total number of tourists 2005	% growth 2001-2005	Total number of tourists 2010	% growth 2005-2010	% growth 2001-2010
Mardin	54,870	81,964	49.4	203,000	147.7	270.0
Turkey	11,619,000	21,122,800	81.8	28,632,204	35.5	146.4

Source: *Provincial Directorate of Tourism (2011)*

This table, based on official data provided by the Provincial Directorate of Tourism, Mardin, shows that between 2005 and 2010 the number of foreign tourists in Mardin has increased by 147.7% and between 2001 and 2010 it has increased by an astonishing 270%. In comparison the number of foreign tourists visiting Turkey between the same years has grown by 35.5% and 146.4% respectively. However, the number of domestic tourists has increased even more. An unofficial source advanced even higher numbers of tourists for Mardin. It claimed that during the first half of 2005 nearly 250,000 visited the city, after more than 400,000 tourists had visited in 2004 (Anonymous 2005). The number of tourists continued to increase after 2005. In 2010, a total of 875,000 people visited Mardin and in 2011 the number of tourists reached 783,000 for the first five months (Provincial Directorate of Tourism, 2011; World Bulletin 2011). The number of tourists visiting Mardin is projected to increase the target being two million tourists by 2015 (World Bulletin, 2011).

Mardin is situated very close to the border with Syria and an accord between Turkey and Syria has eliminated the visas for the

citizens of the two countries. This explains why Syrians make up the bulk of the foreign tourists to Mardin. Other prominent groups are from: USA, Italy, Japan, Australia, Poland, UK, South Korea, Germany, Belgium, Switzerland, Greece and Canada.

The importance of tourism and religious tourism for Mardin

As mentioned earlier, close to one million people visited the province of Mardin in 2010. However, this statistic does not mention how many tourists visited for religious motives. In a paper presented in 2010, Gunduz and Erdem reported on a visitors' survey they conducted in Mardin. According to them, 66% of the surveyed visitors stated that they have visited or intend to visit churches and monasteries while in the city.

The numerous historical and religious structures in Mardin attract an increasing number of domestic and foreign tourists. Not all the visitors to Mardin stay overnight and, among those who do, some have family and friends with which they can stay. Only some stay in hotels and other types of accommodation. In 2010 the total number of tourists staying in hotels was 109,928 people, 100,320 of them being domestic tourists (91.3%) and 9,608 foreign tourists (8.7%) (Provincial Directorate of Tourism, 2011; table nr. 2). This represents 12.6% of the total number of tourists who visited Mardin in 2010. However, the study included only eleven hotels in the province of Mardin so the number of tourists staying in a hotel could actually be much higher.

The 2011 study includes 28 hotels in the province of Mardin. During the first eight months (January-August) a number 95,111 tourists stayed in these hotels, of which 88,754 domestic tourists (93.3%) and 6,357 foreign tourists (6.7%). Presuming the same monthly distribution pattern as in 2010 the estimated total number of tourists staying in hotels in Mardin in 2011 is 147,003, a 33.7% increase over 2010.

In our study sample a higher percentage of visitors used the accommodations in Mardin. Close to 50% stayed either in hotels (37%) or pensions (11%). Of these 47% stayed two or three nights or for a weekend and 37% stayed for up to a week. Only 5% stayed for more than a week and 11% spent only one night in a hotel in Mardin. The rest stayed with friends and relatives (31%) or did not stay overnight (21%).

According to our informants from the major hotels in Mardin, most tourists prefer to visit during the spring and autumn months. Occupancy rates of hotels and motels are increasing in April-June and

in September-November. Table 2 shows that almost 36% of the tourists likely to stay in a hotel will visit during the spring months (April-June) and more than 28.5% during the fall months (September-November). During these months, hotel occupancy rates could reach values of 80 - 85%. In fact, in recent years, many hotels could not meet the demand during these months. This travel preference could be explained by the fact that summers in Mardin are very hot which could make traveling uncomfortable. Winters, on the other hand, could sometimes be quite cold both in Mardin and in the place where the tourists originate. This visiting pattern mirrors the pattern of domestic tourists which represent the great majority (91.3%) of the tourists in Mardin. When we analyze the visiting pattern of foreign tourists, on the other hand we see that 72.8% of the foreign tourists staying in hotels visited Mardin between May and October. This reflects the vacation time in Europe and North America.

Table nr. 2: The monthly distribution of tourists in Mardin

	# D	% D	# F	% F	# T	% T	% F T
Jan.	4,943	4.9	343	3.6	5,286	4.8	6.5
Feb.	4,940	4.9	237	2.5	5,177	4.7	4.6
Mar.	7,345	7.3	361	3.8	7,706	7.0	4.7
Apr.	11,931	11.9	709	7.4	12,640	11.5	5.6
May	15,848	15.8	1,231	12.8	17,079	15.5	7.2
Jun.	8,798	8.8	1,028	10.7	9,826	8.9	10.5
Jul.	6,187	6.2	1,099	11.4	7,286	6.6	15.1
Aug.	4,786	4.8	1,512	15.7	6,298	5.7	24.0
Sep.	8,263	8.2	1,214	12.6	9,477	8.6	12.8
Oct.	10,638	10.6	925	9.6	11,563	10.5	6.9
Nov.	9,872	9.8	543	5.6	10,415	9.5	5.2
Dec.	6,769	6.7	406	4.2	7,175	6.5	5.7
2010	100,320	100.0	9,608	100.0	109,928	100.0	8.7

Source: *Provincial Directorate of Tourism (2011)*

D = Number of domestic tourists that month

% D = Percent of domestic tourists that month of the total number of domestic tourists in 2010

F = Number of foreign tourists that month

% F = Percent of foreign tourists that month from the total number of foreign tourists in 2010

T = Total number of tourists (domestic and foreign) that month

% T = Percent of tourists that month of the total number of tourists in 2010

% F T = Percent of foreign tourists from the total number of students

Currently there are 28 hotels in Mardin and new hotels are opening every year. Some of these hotels are frequented by an international clientele; others serve mainly domestic tourists. First five star hotel, Erdoba Elegance opened recently after a \$22 million investment. The hotel has 220 rooms and 450 beds.

Other benefits to the local community

However, not only hotels and other types of accommodation benefit from the development of religious tourism. The approximately one million tourists visiting every year are patronizing local restaurants, stores, markets, bakers, etc. A taxi driver informant told us that his business increases significantly during the spring and fall months when most of the tourists visit. There is a large contribution of tourism to local community. Also local artisans seem to do very well as tourists are buying more souvenirs. The study by Gunduz and Erdem (2010) found that 30% of tourists in Mardin spend more than 200 TL, 10% spend 151-200 TL and 14% spend between 100 and 150 TL¹. Most of these visitors also mentioned that most of the money is spent on souvenirs and silver jewelry. Mardin is famous for its silver filigree. The same study by Gunduz and Erdem (2010) found that 61% of all visitors to Mardin also make a visit to the local bazaars benefiting the local economy.

In our study we asked our respondent how much they spent in Mardin during their entire length of stay. For 21% of the participants the approximate budget for stay in Mardin was 200 TL or less and 26% answered that they spent between 201 and 400 TL. Also 26% of our respondents spent 401-1000 TL and 21% spent 1001-2000 TL during their entire length of stay. Only one participant (around 5%) spent more than 2000 TL. Almost all of our respondents (95%) ate in restaurants at least once a day while in Mardin and 63% mentioned that they always buy artifacts and gifts from the sites they visit.

¹ At the time, 1 euro was approximately equivalent to two TL (Turkish Lira).

Many new jobs, mainly in the tourism sector, are also supported directly or indirectly by this recent development of religious tourism in Mardin. According to the local authorities, about 9.25% of the population of Mardin is employed in the tourism sector. Of these, approximately 1200 people are employed in the accommodation facilities in Mardin.

What have local authorities done to promote tourism and religious tourism in Mardin?

Most of our respondents have heard about Mardin through word-of-mouth (32%) and through internet (32%) while tourism brochures (20%) and the media (16%) were somewhat less efficient in popularizing the province to potential tourists. Also, most of our respondents had a positive experience in Mardin, 53% of them expressing the intent to visit again later and 63% being willing to recommend Mardin's religious sites to others. While these numbers may project a positive image of Mardin's potential for further tourism development, local authorities are aware of the fact that as more tourists arrive some of the infrastructure deficiencies will become more visible.

For example, increased numbers of tourists could lead to overcrowding. This, on the one hand can influence the character of the site as large crowds of tourists (especially when they do not behave appropriately) can affect the way people experience a religious place. On the other hand, a sudden increase in the number of tourists could lead to overuse of resources. In the study by Gündüz and Erdem (2010), 52% of the respondents complained about the number and quality of existing restaurants, 44% found accommodation facilities inadequate and neglected and 40% pointed out to the deficiencies in parking space. A few years ago, a tourism director from Mardin noted that, due to insufficient accommodation capacity most tourists visiting Mardin were actually day-trippers (Anonymous, 2005).

How have the authorities responded to this situation? They have encouraged the construction of new hotels and indeed the number of hotels and other forms of accommodation has increased considerably during the last five years or so. The quality of the hotels and hotel services has also improved especially after the opening of the first five-star hotel. Also many historical buildings are being restored to serve as guest-houses or boutique hotels or restaurants (Ministry of Culture and Tourism, 2007). For example, an old inn, Artuklu Caravan Palace, after

very thorough restoration and renovation work was turned into a hotel with 43 rooms and 100- bed capacity. Other such examples of historic mansions transformed into hotels are Erdoba Mansion and Maria Mansion. Another old inn, Saru Han, serves as a restaurant.

There are also some accessibility problems. The province is situated very far from Turkey's major cities (Istanbul, Ankara and Izmir). There is a small airport in Mardin built in 1999 but many tourists are still arriving to Mardin via Diyarbakır airport situated some 100 km to the north. Also many tourists are arriving by car or bus from Sanliurfa (about 200 km to the southwest). These connecting roads need to be improved for better accessibility. There is a grand plan elaborated by the government (Ministry of Culture and Tourism, 2007), according to which the Southeast of Turkey (including Adiyaman, Diyarbakır, Gaziantep, Hatay, Mardin and Sanliurfa) will be developed for cultural and religious tourism. A "Faith Tourism Corridor" will be established to include the cities of Tarsus, Antakya, Gaziantep, Saliurfa and Mardin. A new highway will be constructed to link Tarsus to Mardin and boost accessibility in the region.

Discussion, conclusion and recommendations

The number of tourists visiting the province of Mardin has increased considerably during the last several years and a great number of these tourists are interested in visiting the various religious sites. This surge in the number of visitors is attributable to a number of factors:

1. The threat of terrorism in the region has subsided and the province has become safe for tourists.
2. The Turkish economy has seen one of the highest growth rates in Europe and in the Middle East and seems to be less affected by the economic crisis. Salaries have increased in the country and Turks now have higher disposable incomes which they spend increasingly on travel and tourism.
3. The government has made tourism an important pillar for economic development. In order to increase the number of visitors it has signed agreements with almost all neighboring countries to eliminate visas for their citizens. Consequently the number of tourists from Russia, Ukraine, Georgia, Iran and Syria has increased considerably during the last several years. Many Syrians, Muslim and Christian, took advantage of this agreement

to visit religious objectives of their faith in the province of Mardin.

4. The government is encouraging the development of alternative types of tourism as these are perceived to be more sustainable in the long run and to allow the participation of provinces that have not benefited from the development of coastal tourism. If successful, this strategy could contribute to the reduction of regional economic disparities.

The increase in the number of tourists has had a strong economic and social effect on local businesses and the local community. Firstly, several new hotels have been built in the province including a five-star hotel. Secondly, most of the tourists stay in the province for several days during which time they eat in local restaurants and patronize local businesses. This has encouraged the opening of new businesses that cater to tourists and local people. Many new jobs have also been created in the tourism sector. This, in turn, has contributed to the development of local non-basic sector as these new salaries were mainly spent in the local economy.

Rapid growth of the number of tourists could, however, put too much pressure on the infrastructure and could ruin the experience of the tourists. So far, the majority of the tourists we talked to seemed to be satisfied with their experience and many expressed their intention to return in the near future and/or to recommend the religious sites in Mardin to others. However, in order to ensure a smooth transition, the authorities need to continue the investments in infrastructure and to provide a more diversified range of tourism attractions in order to bring more tourists and to make them stay longer and spend more in the local economy.

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Tourism Entrepreneurship and its Role in the Activity of SMEs in Romania

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Abstract

Entrepreneurship associated with small businesses is regarded as a key vehicle for the creation of new enterprises, as it generates job growth and stimulates competition. In hotel, tourism and leisure industry, even if they still are a huge number of multi-corporations and multinational chains, industry is dominated by a substantial number of small businesses.

Keywords: entrepreneurship, tourism, SMEs, local communities, economic growth

Introduction

The subject of entrepreneurship has attracted much attention in all the EU countries in the last years. It is widely recognized that, regardless of the domain, the promotion of entrepreneurship is not only necessary for a healthy economy, but is also critical for sustaining prosperity and creating new jobs. That's why, the developed countries encourages the entrepreneurial activities as a most important way to increase development, productivity and economic growth.

The importance of entrepreneurship pervades all the economic sectors and all the types of organizations, but the industry and the activity of SMEs are particularly the domains where entrepreneurship is crucial for economic growth and job creation.

Small businesses are the lifeblood of the economy. That's why entrepreneurship associated with small businesses is regarded as a key vehicle for the creation of new enterprises, as it generates job growth and stimulates competition.

Entrepreneurship has been heavily researched but, in tourism, a relatively little attention has been paid to the role of entrepreneurial activities and, particularly, to the manner how tourism enterprises operate in different countries.¹

Nowadays, tourism is the largest growing industry all over the world. The tourism, accommodation and leisure industry are built first of all upon the entrepreneurship and the activity of small firms.² That's why an entrepreneurial approach is just as relevant and important in hospitality, leisure, sports and tourism, as in other sectors, if not more.

Generally, tourism entrepreneurship means a lot of commercial activities done by firms (at microeconomic and macroeconomic level) which activates in urban or rural areas owned by small individual undertakers, by groups of business partners or private/public companies with limited liabilities, which offers a wide range of tourism services. Such services are: transport, hotel, food service outlets, guest houses, travel agencies, tour operator services, leisure, entertainment, health and fitness clubs, the production and trade of works of art and handicraft, sport tourism and visitor attractions ranging from gardens to local museums, and many other types of outlet. That way, tourism industry is seen as a combination of the activity of public and private organizations actively involved in the development, the production and the

¹ Shaw G., Williams A. M. *Critical issues in tourism: a geographical perspective* (the 2nd edn), Oxford: Blackwell, p. 145-164

² Peters M., Frehse J., Buhalis D. *The importance of lifestyle entrepreneurship: A conceptual study of the tourism industry*, PASOS. Revista de Turismo y Patrimonio Cultural, Vol. 7 N°2, 2009, p. 396

commercialization of products and services able to assure the needs of the tourists.¹

Material and methods

In order to meet the aimed desideratum, we performed a theoretical analysis of the representative specialized literature, on the subject of the influence of tourism entrepreneurship upon the activity of the SMEs, all over the world and, particularly, in Romania.

Literature review

Tourism entrepreneurship is defined by Koh and Saayman² as activities which are dependent upon the existence of a firm and upon the manner in which a legal entity operates in tourism. This field creates many job opportunities in the labor market. These businesses are motivated by the profit earned through the services offered in order to satisfy the needs of tourists and visitors. Such entities are: hotels, guest houses, travel agencies and tour operator services. That means the individuals who sell products and services to tourists - for example handicrafts - are tourism entrepreneurs.

Shaw and Williams (2002) explore the importance of tourism entrepreneurship and discuss its role in understanding tourism's impact on economic development.

Entrepreneurs within the tourism industry are dependent on major tourism developments. For example, in Romania the development of the guest house industry is enormous. The development of this industry depends upon the involvement of the local workforce which may play the role of the employees or of the entrepreneurs, but also it

¹ Lordkipanidze, M. Enhancing Entrepreneurship in Rural Tourism for Sustainable Regional Development. The case of Söderslätt region, Sweden, The International Institute for Industrial Environmental Economics, 2002, IIIIEE, Lund University, p. 35

² Saayman, M., Slabbert, E. Tourism Entrepreneurs: Opportunities and Threats. A South African Perspective, <http://fama2.us.es:8080/turismo/turismonet1/economia%20del%20turismo/economia%20del%20turismo/tourism%20entrepreneurships%20in%20South%20Africa.pdf>, (accessed May 2011), p. 8

needs the goodwill showed to the tourists by the local host.¹ A major development of the local tourism is seen as a way which offers the opportunities to increase the local and also the regional economy. SMEs provide a range of employment opportunities. That's why these businesses have a strong connection with the production and development of new and creative products and with the innovative entrepreneurship spirit.²

In hotel, tourism and leisure industry, even if they still are a huge number of multi-corporations and multinational chains, industry is dominated by a substantial number of small businesses. The vast majority of these small independent owner-managed businesses have outlets which tend to be highly flexible to the changing customer demands and usually offer personal and localized services. Just a scarce number of these businesses will have the possibility to growth in a significant way. That means, the private entrepreneurs has to possess multilateral skills/abilities, to be able to compete with large firms which usually use to hire relevant specialists from this field. Accordingly, to be able to compete with large firms in this domain, the entrepreneur must have the capacity to work out a great number of issues and situations.³

The greatest part of the involved entrepreneur businesses has a direct connection with small family businesses, small hotels, hostels and cabanas, with agricultural farms and diverse art and handicraft stores.⁴ Haywood quoted by Blackstock considers the existence of a healthy and roaring community to be the corner stone for a successful tourism industry.⁵ The activities of the SMEs in tourism are connected with the local communities through the purchases of products, services and

¹ Blackstock, K. A critical look at community based tourism, *Community Development Journal* Vol 40, No 1, 2005, Oxford University Press, p.39

² Ateljjevic, J., Page, S. *Tourism and Entrepreneurship – International Perspectives*, Elsevier Butterworth-Heinemann, 2009, p.149

³ Morrison, A., Rimmington, M., Williams, C. *Entrepreneurship in the Hospitality, Tourism and Leisure Industries*, Butterworth-Heinemann, U.K., 1999, p. 125

⁴ Dhakal, D.P. *Sustainable Rural Tourism for Improved Livelihood of Local Communities*, Nepal Tourism Board (NTB), Economic Policy Network, Policy Paper 4, 2005, http://www.mof.gov.np/economic_policy/pdf/SustainableRuralTourism.pdf, (accessed May 2011), p.17

⁵ Blackstock, K. A critical look at community based tourism, *Community Development Journal* Vol 40, No 1, 2005, Oxford University Press, p. 39

through the employment.¹ That way, a new concept appears: „The civic entrepreneur”, who’s main purpose, is to help the communities to establish collaboration with each other and with the governmental organizations, to have the possibility to organize their activity and to create links between the public and the private sector, and the voluntary sector (the community sector).² The voluntary sector is named also the civic sector, and means the sphere of social activity undertaken by organizations that are not for profit and nongovernmental, emphasizing the sector’s relationship to the civil society.

Tourism entrepreneurship is believed to flourish in an environment where the social, economic and political conditions serve as a motivational force, but such activity needs to be supported by the community and governing bodies. The understanding of the relationship between the local community and the governing bodies, as a key aspect of the local development, will help rather to dismount than to consolidate, the crossings existent in the way of the democracy and local development.

The local and regional development has a major role within the activity of the local tourist communities. Because of the rapid growth of the tourism and leisure industry all over the world, a critical and open approach of tourism is needed.³

We consider that tourism entrepreneurship may growth in such an environment in which the social, economic and political conditions attend as a motivational force, but, such an activity must be sustained by the community and the leadership of the businesses.⁴

¹ Ateljjevic, J., Page, S. Tourism and Entrepreneurship – International Perspectives, Elsevier Butterworth-Heinemann, 2009, p.165

² Roberts, L., Hall, D. Rural Tourism and Recreation: Principles to Practice, CABI Publishing, 2003, p. 207

³ Blackstock, K. A critical look at community based tourism, Community Development Journal Vol 40, No 1, 2005, Oxford University Press, p.46

⁴ Hollick, M., Braun, P. Lifestyle Entrepreneurship: The unusual nature of the tourism entrepreneur, http://www.cecc.com.au/clients/sob/research/docs/pbraun/AGSE-2005_1.pdf, (accessed April 2011), p.3

Tourism entrepreneurship means a lot of activities which creates and operates legal businesses in that field.¹ Generally, all over the world, tourism consists in small and medium businesses with rapidly changing consumer demand/expectation and constant innovation. So, the entrepreneurs are those who may contribute at the economic and social development of the local communities, assuring a balance in a historical period when we assist at the increasing influence of the transnational companies.²

Morrison, Rimmington and Williams declare that the dispersed structure of the tourism industry makes the supply and demand be able to vary significantly from geographical point of view, from one location to another. For entrepreneurs, this creates a dynamic and challenging business environment, which is in perpetual motion. In addition, market fluidity creates tremendous business opportunities.³

Venkataraman⁴ pointed out that small businesses are often considered overlapping directly with entrepreneurship, but in fact the two are not quite synonymous.

Tourism entrepreneurs continuously developing their businesses with minimal strategic planning and the mediocre performance can be considered a result of the lifestyle.⁵

Finally, tourism entrepreneurs have the opportunity to catalyze the situation, balancing and offering on the one hand close contact with local communities and traditions in the area, and on the other hand they may transform the local resources into high quality tourism products/services.

¹ Tassiopoulos, D. *New tourism ventures: an entrepreneurial and managerial approach*, Juta & Co. Ltd., Juta Pty Ltd Academic Publishers, 2008, p.12

² Roberts, L., Hall, D. *Rural Tourism and Recreation: Principles to Practice*, CABI Publishing, 2003, p. 114

³ Morrison, A., Rimmington, M., Williams C. *Entrepreneurship in the Hospitality, Tourism and Leisure Industries*, Butterworth-Heinemann, U.K., 1999, p.186

⁴ Ateljevic, J., Page, S. *Tourism and Entrepreneurship – International Perspectives*, Elsevier Butterworth-Heinemann, 2009, p.77

⁵ Hollick, M., Braun, Patrice. *Lifestyle Entrepreneurship: The unusual nature of the tourism entrepreneur*, http://www.cecc.com.au/clients/sob/research/docs/pbraun/AGSE-2005_1.pdf, (accessed April 2011), p.6

Tourism entrepreneurship in Romania

All over the world, tourism entrepreneurship is considered to be a central force of the economic and social development, as long as it generates growth and new jobs. The same happens in Romania. To navigate successfully toward high performance, owners of small tourism firms must ensure that their businesses are well positioned strategically to fight the market and the competitive environment. They must be willing to risk and innovate, passing everything through the filter of people and having the ability to make things happen through people (technical dimension), to create a work environment for the company, both for employees and for customers (psychological dimension), and last but not least, to be based on moral values (ethical dimension).¹

Romania has a wide range of natural and cultural features attractive to tourists, both in urban and rural areas. An increasing numbers of urban or rural householders usually offer bed and breakfast accommodation to visitors; more than that, entire rural communities find themselves drawn into tourism, as a potential future job. That's why rural tourism entrepreneurship is seen more and more as a way to create a new service industry, in the conditions that traditional manufacturing industries decline.

In Romania, like in other countries, within the private sector of tourism, can be find essentially three types of enterprises:²

- Individual or family enterprises, which operate at a relatively small scale, often in their own home or very close to it, with limited capital and using mainly their own work. These individual or family businesses can make decisions easily and can withstand fluctuations in trade. But it can be difficult to raise sufficient capital for most significant expenses and also may be more difficult to adapt to rapidly changing market, regulations, tax systems, etc. These “small enterprises” tend to expand their business in a prudent manner, avoiding risky adventures. Most of the tourist farms, small hostels and tourist shops fall into this category.

¹ van Zyl C., Mathur-Helm B. Leading Tourism Ventures, http://www.usb.ac.za/Media/thoughtleadership/leaderslab/Leading_tourism_ventures.pdf, (accessed April 2011)

² ***, Developing Sustainable Rural Tourism, Thematic guide. Pan-European Summer Academy for Sustainable Rural Development, 2002

- Small businesses (with more than twenty-five employees) owned by a family or a few local people. There is an inborn loyalty to the local area and, therefore, employ local people, use local suppliers etc. Staff often work part-time or include seasonal workers, and this enables them to control costs. Team and staff of such an organization can be large enough to allow the manager or others to specialize in different areas such as marketing, law, accounting, or other aspects of a business, which helps them to make decisions on new investments and space modernization.
- Larger companies typically have multiple facilities, sometimes in other regions, such as a chain of hotels, restaurants or resorts. Loyalty to the region is not important, unless they have employees specialized in different areas, and suppliers may be from outside the area. They are usually professionals and at the same time very aware of the standards that are expected from them by the tourists.

Analyzing this classification, we have to underline that in Romania, the greatest part of the tourist businesses are family business enterprises.

The key elements necessary for the development of tourism entrepreneurship in Romania and all over the world, includes:¹

- The initiation of change: the ability to identify an opportunity for creation, innovation and transforming a new idea into reality;
- Creative resources: ingenious selection of financial resources and management in order to find and transform the opportunities;
- Entrepreneurial education: motivation to acquire knowledge and expertise needed through relevant exploration in order to excel;
- Innovation and creativity: renewal of products and services by adding value through expertise and imagination;
- Knowledge of management and leadership: developing sources of information management to enable strategy formulation and efficient implementation;
- Vigilance regarding opportunities: continuous focus on new trends and opportunities;
- Relationship Management: creation and maintenance of teams, effective network and management flexible structures;

¹ Peters, M., Frehse, J., Buhalis, D. The importance of lifestyle entrepreneurship: A conceptual study of the tourism industry, PASOS. Revista de Turismo y Patrimonio Cultural, Vol. 7 N°2, 2009, p. 396

- Time of action: to act in an appropriate time, when opportunities can be optimized;
- Vision and strategic orientation: formulating goals and strategies to achieve them.

Conclusions

The reality shows that, some of the major problems of tourism entrepreneurs in Romania are the lack of experience in that field or, even they have experiences in management, they have insufficient capital and a lack of formal business skills.¹

Tourism is a field with huge development possibilities. Still this domain needs entrepreneurs, they can be considered to be the main actors in developing the national economy for the future. As Peter Drucker said: "The entrepreneur always searches for change, responds to it and exploits it as an opportunity."

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¹ Hollick, M., Braun, P. Lifestyle Entrepreneurship: The unusual nature of the tourism entrepreneur, http://www.cecc.com.au/clients/sob/research/docs/pbraun/AGSE-2005_1.pdf, (accessed April 2011), p.6

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The Adoption of IFRS and Quality in the Accounting Profession. Theoretical Analysis in the Case of German Companies

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Abstract

The processes of normalization, internationalization, harmonization and convergence have become a nowadays reality. As a result, the massive adoption of IFRS in many regions of the world has generated numerous debates and opinions. Under these circumstances, ever more attention was given to the connection between the international accounting/audit standard and quality in the accounting profession, the main characteristic of the business world. Therefore, through this study, we aim to identify the effects of adopting the International Financial Reporting Standards (IFRS) on quality improvement in the accounting profession.

Keywords: IFRS adoption, quality in the accounting profession

Introduction

Economic activity is an extremely complex field. Globalization and competition determine an increase in the role of information as well as in supporting decisions. *Information quality* influences both: the efficiency of decisions and the perspective of obtaining good results in the company's activity. Moreover, numerous authors adhere to the opinion that reporting this information in compliance with the International Financial Reporting Standards (IFRS) contributes to increasing quality in the accounting profession and implicitly to provide the best quality information.

In the attempt to define the quality of accounting standards, numerous authors, in representative specialized studies, have treated this aspect through the perspective of the connection with the quality of the financial statements, drawn according with the international standards in that field.

Analyzing the situation in Germany, in this study we focus on the complex interaction between stimuli and accounting standards in determining quality in audit and in the accounting profession. Although the sample size is relatively small in the case of the analysis performed on a single country, this issue is compensated by the fact that we can explicitly notice the voluntary adoption versus the rejection options of all the companies involved.

In essence, we perform an analysis on the situation in this country since it allows us to test the extent to which quality in the accounting profession is improved when companies are forced to comply with what is generally perceived as a high quality accounting standard. It is a known fact that this country is subject to a Roman-German law system and, implicitly, to a continental accounting system, dominated by prudence, dependent on fiscality, and with limited investor protection.

Although the application of IFRS has become compulsory in Europe starting with January 2005, many German companies were already using the international standards for drawing the financial statements, some since 1994 and many other since 1998 and 1999. For example, relating to the total number of quoted companies, in 1998, 42 companies of the total 597 (7.04%) applied IAS/IFRS, 37 companies (6.2%) applied US-GAAP, and the rest of the companies were using HGB.

The researchers Weißenberg, Stahl and Vorstius (2004) focused on identifying the reasons why some German companies gave up the German GAAP in favor of the IFRS or of the US-GAAP. The authors sent a questionnaire to 359 companies (DAX 100 and Neuer Markt) and received 81 answers. The results obtained showed the fact that the switch to the application of international norms was mainly motivated by the wish to improve the quality of the information provided, and implicitly by the desire to obtain higher gains on the capital market and with the purpose of attracting external investors.

Material and methods

In order to meet the aimed desideratum, we performed a theoretical analysis of the representative specialized literature, on the subject of the influence of the International Financial Reporting Standards (IFRS) on the improvement of quality in the accounting profession. As a result, we wish to compare the way in which quality in the accounting profession is influenced by the adoption of IFRS for two groups of companies: those that gain net benefits from the adoption of IFRS and those that have not received stimulants in order to adopt the IFRS and had to comply with them.

The specialized literature review is completed by the critical comparative analysis and by inductive and deductive reasoning. The study brings into discussion obvious elements, as well as elements that are harder to grasp, based on which we can consider that the adoption of the international accounting reference is a measure that increases quality in the accounting profession.

Literature review

The problem of the connection between the accounting standards and the quality of audit was the object of numerous studies, like those from Van Tendeloo Brenda, Vanstraelen Ann (2005) - Belgium, Barth Mary, Landsman Wayne, Lang Mark, Williams Christopher (2006) - California, Gassen Joachim, Sellhorn Thorsten (2006) – Berlin. The researchers focused on the analysis of the impact of two dimensions of quality in the accounting profession, which are: *the benefits management and the loss of opportune acknowledgement*, often analyzed and debated in studies on the effect of accounting and audit standards on the quality of the accounting profession.

Moreover, the results suggest that the adoption of IFRS, which are generally seen as better than HGB from the quality perspective, does not necessarily lead to higher quality in accounting. There are two possible explanations for this observation. First of all, the flexibility incorporated in IFRS would make them inefficient in managing the limitation of the benefits of the companies with a low level of stimulants. Secondly, IFRS may not be enough to reduce benefit management and to increase the loss of opportune acknowledgement. In this case, the improvements of the accounting quality noticed, based on the analysis of the tested sample could be transformed by changes in the

company stimulants, close to their adoption. Although we cannot distinguish the difference between these explanations, they both comply with IFRS as such, without increasing accounting quality, even when the previous accounting standards are considered to be of lower quality.

However, supplementary tests confirm the existence of effects, in time, of an improvement in the quality of the accounting profession during the analyzed period, on the sample subject to the study. Nevertheless, this result does not explain the entire difference in the quality changes that we have noticed between the two groups, as part of the sample, one made up of selected companies and another one of voluntary companies. The fact that the time effect has an influence on the companies, irrespective of the accounting standards, further analysis supports the conclusion that improvements in the accounting quality in the case of the volunteers for the IFRS application can be attributed to the standards themselves.

In associated specialized studies, Ball, Robin, and Wu (2003) provide pragmatic evidence at the country level that accounting quality is influenced more by stimulants than by accounting standards. The authors argue that stimulants are influenced by the institutional situations of the companies. Moreover, Ball and Shivakumar (2005) and Burghstahler D.C., Hail L., Leuz C. (2006) underline the fact that quality in accounting is weaker in private companies than in the public ones, although the same accounting standards have been applied. In most countries, the accounting standards are the same for all the listed companies, but the stimulants often vary.

In another specialized study, Hans B. Christensen, Edward Lee, and Martin Walker (2008) suggested that the objective of improving the quality of the accounting profession cannot be met by all the companies by making the accounting standards compulsory, since such attempts will have limited effects on the companies that do not have stimulants to comply with the requirements.

The adoption of IFRS and quality in the accounting profession. Theoretical approach in the case of Germany

The conclusions of the researchers Van Tendeloo Brenda, Vanstraelen Ann (2005) and Goncharov Igor (2005) showed that no difference could be found in the benefit management between the German companies that voluntarily adopted the IFRS before 2001 and the German companies that applied HGB. Also, the authors did not

identify differences in what concerns the manipulation of the results between the companies that voluntarily adopted the international standards before 2001 and those that continue to apply the German Commercial Code. Contrarily, the switch to the international norms appears to increase the number of result manipulation practices. However, they are fewer when the company benefits from contractual relations with an auditor from the Big 4.

Hung and Subramanyam (2007) reached a similar conclusion for a sample of German companies that voluntarily adopted the IFRS between 1998 and 2002. Rather than focusing on the transversal differences between companies, Hung and Subramanyam capitalized upon the fact that the companies that adopted the IFRS compare their net income under the application of HGB and IFRS for the same years. Since IFRS is associated with higher accounting quality, Barth et al. (2006; 2008) discovered, by analyzing a sample of international companies that voluntarily adopted the IFRS before 2003, the fact that they present lower levels of benefit management and less loss of the opportune acknowledgement than a similar group of companies that use the local accounting norm system.

In conclusion, the proof regarding the association between the voluntary adoption of IFRS and quality in the accounting profession is mixed, although the documents that use more recent data generally find higher accounting quality in the case of companies that adopt IFRS, irrespective of whether or not this step took place voluntarily or compulsorily.

The common feature of these studies is the fact that they focus on the companies that have voluntarily adopted the IFRS. This aspect raises a few questions, which we believe to be important, which are: *whether or not we can attribute the quality improvement to the application of the IFRS in itself? Does the adoption of IFRS have considerable effects on quality in accounting? Are quality improvements the result of other changes simultaneously implemented by the adopting companies?*

In a parallel study, Daske Holger, Luzi Hail, Christian Leuz and Rodrigo Verdi (2007) verify the effects of market capital on the compulsory adoption of IFRS. The authors find evidence that correspond to the reduction in the information asymmetry in association with the compulsory adoption of IFRS. They debate the possibility for

the effect to come from associated network causes, rather than from improvements of the accounting quality. Nevertheless, Daske et al. notice that the effect of adopting IFRS is concentrated in companies with stimulants.

In a similar spirit, Hans Christensen, Edward Lee and Martin Walker (2008) support the hypothesis that, if the adoption of IFRS has a beneficial effect on quality in accounting, then the companies in countries with a low quality level also present dependences on fair funding before the compulsory adoption of IFRS. As a result, they should feel a positive qualitative impact after the compulsory adoption.

Nevertheless, numerous studies show that, using the implicit cost of fair capital as an indicator, no effect can be noticed for these countries, even after two years of usage of the new accounting standards. Still, we consider that the involuntary adoption of these standards, in the conditions of complying with the legal requirements imposed by the international normalizers, generates an increase in the quality of the accounting profession and, implicitly, in audit.

We therefore believe that *the voluntary adoption imposes quality changes in the accounting profession*, especially because the purpose of financial reporting is in essence to reduce the information asymmetry between the corporate managers and the contracting parties. Moreover, the latter may be shareholders, creditors, providers, customers, employees and other shareholding companies. As financial reporting come to facilitate efficient contracting, maximizing the company value, the relative importance of the various user groups and their different information needs influence the way in which a manager applies the evaluation margin in financial reporting. Let us assume then, that a company experiences a positive shock to its options of economic growth. In order to capitalize upon these new growth opportunities, the company needs external funding. The involvement of foreign investors is easier when the benefits are not managed and when losses are acknowledged in due time (Ball R., Kothari S.P., Robin A., (2000); Watts R.L., (2003)).

As a result, in order to attract external funds, companies must improve their financial reporting according to these two dimensions. In this scenario, two vague categories of explanations are essential in what concerns the reason why a company can voluntarily adopt the IFRS in the process. The former suggests that the IFRS have a beneficial effect

on quality in the accounting profession, while the second claims that it is the action of other factors that have an effect on the company.

The previous statements do not remain valid in the conditions in which *the compulsory IFRS* have been adopted according to the “checkbox” mentality. Moreover, for the companies that delayed the adoption of the IFRS until 2005, when it became compulsory, the circumstances related to its adoption differ from those valid for the companies that voluntarily adopted these accounting standards. Companies could adopt the IFRS ever since 1998, but they decided to wait until they had to do it, in 2005.

In the study *International Financial Reporting Standards - ready for take-off?* (2004), Pricewaterhouse Coopers representatives suggest that the extent to which the IFRS is incorporated into the organization is an important factor in the resulting accounting quality. Moreover, IFRS is considered to be incorporated if it is used for internal reporting and if the systems are adapted to automatically generate the required information.

Similarly, the extent to which the IFRS is incorporated into the organization may also affect the conformity costs, since the change of internal reporting and the adaptation of the IT systems are extremely expensive. The idea that the “checkbox” mentality is common among the companies that adopted the compulsory IFRS is supported by a study of the first 200 IFRS annual reports obtained from all the EU member states (ICAEW, 2007).

Trying to identify the manner in which the application of international standards may be associated to an increase in the quality of the accounting information and, implicitly, of the accounting profession, the authors Barth M., Lansman W., Lang M. (2006) analyzed a sample of 21 countries that adopted the IAS between 1994 and 2003. Their conclusions were that, for the fiscal years after the adoption of the international reference, companies reduced their result manipulation practices, acknowledged time losses, and the relevance of the numbers presented in the financial statements amplified. They also noticed that, after the adoption of IAS, the variations of the modifications of the net income and cash flow increase, the interdependence between engagements and cash flows grows the frequency of appearance of positive net results decreases and that of losses increases. All these were

associated to an increase in the quality of the accounting information and of the relevance of the results after IAS implementation.

Results and discussion

Previous research showed that benefit management decreases and the loss of opportune acknowledgement increases after the voluntary adoption of the IFRS. In contrast, the companies that delayed the adoption until it became compulsory in 2005 did that because they did not have the necessary stimulants for adopting the IFRS. We cannot find any improvement in the accounting quality for the companies that resisted the adoption of IFRS until 2005. Although additional analyses indicate that quality improvements among the companies that voluntarily adopted the IFRS were affected by temporal tendencies, this effect does not explain some of the quality changes until the adoption moment between the two groups. We believe that the quality effect in the accounting profession does not always improve with the adoption of the IFRS, but this can be a measure to rally to the international information market.

Conclusion

Numerous studies showed that one of the reasons why Germany voluntarily adopted the International Accounting Standards since 1997 was the fact that the use of these standards can be considered an indicator of the quality of the published information. Also, renowned audit companies (Big Five, at the time) encouraged the use of international norms by their customers, so as to be able to make scale economies as a result of the application of a single set of accounting rules by customers worldwide. Another reason that lied at the basis of the adoption of international norms was the reduction of the information asymmetry, by publishing a large volume of information, their ability to inform the participants to capital market and increasing informational transparency.

After reviewing specialized studies, we noticed that the voluntary adoption of the IFRS is associated to benefit loss management and to the loss of opportune acknowledgement. In contrast, we cannot find any proof of improvement in the quality of the accounting profession for the companies that were forced to adopt the IFRS. However, we consider that the adoption of these standards, irrespective of the chosen manner, voluntary or involuntary, in the conditions of

complying with the legal requirements imposed by international normalizers, generate an increase in the quality of the accounting profession and, implicitly, in audit.

All the results obtained shows the fact that the switch to the application of international norms was mainly motivated by the wish to improve the quality of the provided information and, implicitly, from the desire to obtain higher benefits on the capital market and with the purpose of attracting external investors.

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Antecedents of loyalty for food products – Investigating the effects of subjective constructs

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Abstract

Our research aimed to reveal the effects that can be observed during the buying process of food products and can influence the decisions of customers. We focused on the role of enduring involvement in customers' behavioural loyalty, that is, the repurchase of food brands. To understand this relationship in a more sophisticated way, we involved two mediating constructs in our conceptual model: perceived risk and perceived knowledge of food products. The data collection was carried out among undergraduate students in frame of an online survey, and we used SPSS/AMOS software to test the model. The results only partly supported our hypothesis, although the involvement effects on loyalty and the two mediating constructs were strong enough, loyalty couldn't be explained well by perceived risk and knowledge. The roles of further mediating/moderating variables should be determined and investigated in the next section of the research series.

Keywords: involvement brand loyalty, subjective knowledge, perceived risk, food products

Introduction

As a result of the introduction of the Stimulus-Organism-Response (S-O-R) paradigm in psychology by Woodworth (1928), there has been substantial research focusing on the investigation of subjective variables that play dominant role in individuals' reaction to different stimuli or affect these responses. This new approach has also induced a number of new mainstream research directions in marketing and

generated many new concepts which help to understand the individuals' buying behaviour. Despite having widely studied, concepts and relationships in this area have remained undefined and unrevealed, which demonstrates the complexity of the buying process.

In our research series we aimed to investigate the effect of enduring involvement on brand loyalty. Many research projects have focused on this link and determined different levels of association so far (Mittal and Lee, 1989; Shukla, 2004) but this area has not been completely explored, especially because of the moderating and/or mediating role of the related concepts.

In the development phase of the theoretical approach we aimed to determine a general research concept but our empirical investigation focused on foods. In our conceptual model we included the perceived risk of foods and customers' perceived knowledge of them with the intention to identify the effects these concepts bring into this relationship.

In most cases, involvement explains the long lasting and intensive process of information seeking, decision-making, and application of different choice criteria, etc.. Buying food products, on the other hand, can be a recurring habit and routine. The relative low monetary cost of particular food products and the weak effect of individual brand decision-making on the household budget (Mitchell and Harris, 2005) can lead to low (situational) involvement of customers. Researches supporting this effect mainly concentrate on specific product categories instead of foods in general. Although a particular food product does not cause difficult decision-making problem for customers, the whole food category plays important role in their life. The increasing consciousness of customer behaviour and the more intensive interests in healthier life-style have drawn additional attention to this area. The communication activities of producers and retailers and the faster and faster product development and market launch can also strengthen the inquiry towards food products in general. These tendencies and the concept of loyalty itself suggest that in case of foods we should investigate the enduring, context-free factors and individuals characteristics. Hence, we focused on enduring involvement, general risk and knowledge perceived by customers to explain the variance of brand loyalty.

Literature review

As all the concepts we used in our conceptual model are not clearly defined in the marketing literature, or, at least, we can find minor differences in their meanings and classifications, it is useful to review the competing approaches before measuring the association between them.

Loyalty

Generally, we can determine two different types of loyalty: behavioural and attitudinal ones. The former refers to the relative frequency of returning to the object of loyalty, that is, it means buying the same brand or visiting the same store. In case of attitudinal loyalty we presume a kind of emotional commitment towards the favourite brand, product category, store, etc. The two concepts can strongly correlate but do not necessarily exist at the same time, as many factors can distract customers from the preferred brand, for example out-of-stocks, price reductions of competing brands, and so on. Dissatisfied consumers, on the other hand, can show similar buying patterns and select the same brand because of the concept of inertia, the perceived monetary and cognitive cost of brand switching, or for other reasons. If customers are both emotionally committed and frequently buy the same brand, we can regard them truly loyal ones, but the literature distinguishes spurious and latent loyalties as well, based on the attitudinal and behavioural dimensions of the concept (Dick and Basu, 1994).

Within this study loyalty is considered in terms of behavioural rather than attitudinal one since latter is a more complex concept with several subcategories.

Involvement

The concept of involvement first appeared in social psychology (Sheriff and Cantril, 1947), where it describes the relationship between the ego and an object as a group of beliefs related to the individual. Others have used it to describe a general level of interest taken in an object (Day, 1970). According to one of the most widely used definitions of involvement it is “a person’s perceived relevance of the object based on inherent needs, values, and interests” (Zaichkowsky, 1985:342).

In this study we view involvement as an internal state that reflects the importance and relevance of the object for the individual. As we mentioned in the introduction, the research presented here focuses on general enduring involvement in food products. The two reasons behind that are the low situational involvement level in case of buying in this product category and our conscious orientation to reveal context-independent mechanisms behind the loyalty concept. Within the enduring nature of this concept, in this phase of our research series we measured involvement in food products as a whole, that is, respondents had to evaluate their relations to this category in general.

Perceived risk

Perceived risk is a relatively well-defined concept in marketing literature, although, the different subtypes of it requires further conceptualization work and currently have received greater research attention. We accept the definition of Kindler (1987:13), which states that “the risk is description of a behavioural alternative’s potential, negatively perceived consequences including both weight and probability of occurrence of them”. In respect to our study, an important distinction is made by Bettman (1973), who determined two types of perceived risk, inherent and handled ones. Inherent risk is related to the product category, and this constant perception is independent from situational factors. Handled risk can be induced by inherent risk but, besides that, many other contextual stimuli, as well. As, we concentrate on the enduring characteristics of the buying process, we included inherent risk in our research model.

Subjective knowledge

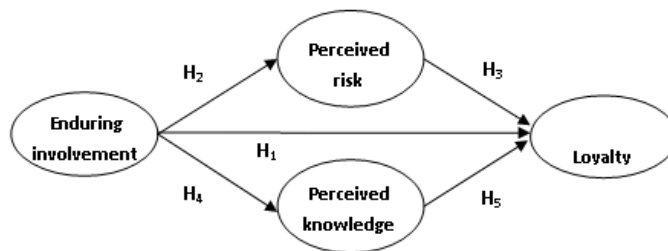
While knowledge was earlier considered to be a one-dimensional variable, later it was described as a complex system depending on the information content stored in the memory (Brucks, 1986). Knowledge used in marketing is usually related to products, product classes or brands. The concept of product knowledge (long in the focus of research in the 1980s) is considered to be an important factor of information processing (Raju, Lonial and Mangold, 1993). According to the most popular and most widely accepted view three types of consumer knowledge are to be distinguished (Raju, Lonial, and Mangold, 1993): subjective (perceived) knowledge, objective knowledge, usage experience. Subjective knowledge is the consumer's perception of their

own knowledge. Objective knowledge is the actual amount, type and organization of knowledge. Finally, usage experience - also known as self-perceived knowledge - refers to purchase or usage experience.

Research model and hypothesis

Hereinafter the conceptual model of the study and the hypotheses we have set up and tested are presented (*figure 1*).

Figure no. 1. The research model



The effect of enduring involvement on behavioural loyalty

In the S-O-R model adapted to involvement by Houston and Rothschild (1977) the decisions made during the buying process are influenced directly by situational involvement and enduring involvement has only a moderating role in this relationship. In contrast, Mittal and Lee (1989) in their empirical model assumed and confirmed that enduring involvement has direct effect on different behavioural variables. In the literature situational involvement is viewed as an antecedent of brand loyalty. The theory behind this is that situational involvement evolves when customers perceive some level of risk in the buying context and try to handle that. As a consequence, customers can follow different strategies, typically rely on well-known, formerly used brands, their preferences are formed and choices are based upon their experience (Kolos, 2004).

However, unlike situational involvement, which entails a kind of rational reaction in the buying process, enduring involvement generates an emotional relationship between customers and the given product category. This can have a further emotional effect on the way individuals are going to response to stimuli. For instance, consumers have favourite brands is higher if they are involved in a particular

product category in the long run (Beatty, Homer and Kahle, 1988). Based on these research findings we postulate that by consumers whose enduring involvement higher in a product category as they have spent more time and have paid more attention on that, after a while an emotional engagement to one or some brands within the category will evolve. This leads to the prediction that they will adhere to their favourite brands.

H₁: In relation to food products, enduring involvement has a positive effect on behavioural brand loyalty.

The effect of enduring involvement on perceived risk

Houston and Rothschild (1977) assumed that customers with higher enduring and situational involvement will react more negatively to product attributes that do not reach their expectations. The customer who loves travelling and all year continuously plans and prepares for the next journey, feels stronger disappointment if it is raining all the time during the holiday or his luggage is lost or any other negative accidental event occurs than the other one who is not involved in this leisure activity and going on holiday is not a crucial part of his/her life. While the former one strives for perfection and holds to the elaborated travel plan, the latter one can be flexible in case of unexpected negative incidents. As a consequence, individuals with higher enduring involvement perceive higher risk and this can reach a constant higher level regarding the given product/service category, and which is named inherent risk by Bettman (1973). We also targeted to measure this kind of risk and based on the train of thought above we established the following hypothesis:

H₂: In relation to food products, enduring involvement has a positive effect on perceived inherent risk.

The effect of perceived risk on loyalty

Brand loyalty is viewed as customers' strategy to handle risk, which can be identified as an antecedent (Mittal and Lee, 1989) or a consequence (Dholakia, 2001) of situational involvement. This role of brand loyalty is supported by studies (Mittal and Lee, 1989; Kolos, 2004) but one could identify several other tools how customers can lower their own perceived risk, such as intense information seeking,

product trial, intra-customers communication, etc. (for further example see Kolos, 1997). Risk-handling strategies, however, can be different in terms of the time and the mental effort they require. In the research we should take the characteristics of food products into account since customers generally make many sequential decisions concerning different product categories within relative short time. When we discuss the efforts required by the risk-handling strategy of customers, in case of food products this can be more serious and this makes customers to choose a general, easily implementable method. We assumed earlier that enduring involvement can lead to a level of perceived risk regarding product categories or food products in general. In similar way the mental reaction of customers to this risk can stimulate general application of simplified processes and decision-making patterns across food categories.

H₃: In relation to food products, perceived inherent risk has a positive effect on behavioural brand loyalty.

The effect of enduring involvement on subjective knowledge

In previous studies researchers concluded that involvement and knowledge are positively correlated since customers with higher involvement proved to be more intense information seeker that increases their knowledge about the objects. This link between these constructs was later also verified (Bei and Heslin 1997). The authors found that individuals who are more involved in a product category make worse decisions than others who are less involved in but possess more knowledge about that. Celsi and Olson (1988) argued that the involvement and the perceived knowledge related to food products are in causal relation since knowledge acquisition about the object supposes a certain level of interest. Based on this, we have a similar hypothesis, which assumes:

H₄: In relation to food products, enduring involvement has a positive effect on subjective knowledge.

The effect of subjective knowledge on loyalty

Customers with higher knowledge are able to distinguish the brands' potential performance even if there are only minor differences between them, so they could increase the mental barrier to substitution

possibilities. In this way the higher knowledge can lead customers to remain loyal. In addition to that perceived knowledge can strengthen the confidence and customers can feel a kind of justification of their former brand decisions and reinforce similar behaviour. Individuals with less perceived knowledge can be uncertain about the quality of the products selected and tend to try other alternatives. Therefore, we assume that perceived knowledge has a positive effect on loyalty.

H₅: In relation to food products, subjective knowledge has a positive effect on behavioural brand loyalty.

The research method

We used an online questionnaire among university students (n = 167). The administration was anonymous and voluntary. The respondents were awarded extra course points above the regular ones to increase response rate.

The constructs included in the research model were measured on five-point Likert-scales where 1 = “strongly disagree” and 5 = “strongly agree”. Each scale of the constructs involved three items, that is, we have had altogether twelve items evaluated. In case of three constructs we adapted general, internationally published scales to food products (enduring involvement: a reduced version of Zaichowsky, 1985; perceived risk: risk dimension of CIP-scale, Laurent and Kapferer, 1985; perceived knowledge: scale by Flynn and Goldsmith, 1999). The food-related behavioural loyalty-scale was developed by the authors.

We tested the discriminant validity of scales by the criteria suggested by Fornell and Larcker (1981) that is the indicators of a construct should explain higher variance in it than any other construct in the model tested. The AVE values (table 1) exceed ones what we get if we square the standardised coefficients in the structural model (figure 2), so discriminant validity is confirmed. We also tested the inter-item reliability with the help of coefficients alphas, which showed acceptable values (between 0.691 and 0.892; see table 1).

To verify our empirical model we applied structural equation modelling (SEM) with AMOS 18.0 software package. SEM is the extension of the general linear models (GLM), which can test multiple regression models in parallel. In SEM there are several prerequisites to the analysis. According to Bentler and Chou (1987) in the frame of a SEM-analysis the minimum expected sampling size is the fifth as much

as the number of parameters to be estimated. As the model we established has 29 parameters, therefore, the expected number of respondents is 150. We just managed to meet this requirement with our sampling size of 169. Different fit indexes have also been developed by the researchers for SEM-analysis. In table 2 we present the most widely used ones, their critical values and our empirically estimated ones of the tested model. The results show that the model fits fairly well.

Table no. 1. Study measures

Scale items	Item-to-total correlation	Indicator reliability	T-value of factor loading
Enduring involvement (AVE: 0.597; Composite Reliability: 0.798; Cronbach's α : 0.794)			
Food interests me	0.578	0.44	8.39
Food is important to me (r)	0.613	0.59	9.30
Food has great significance to me	0.744	0.76	12.59
Perceived risk (AVE: 0.607; Composite Reliability: 0.705; Cronbach's α : 0.691)			
It is really annoying to purchase a food product that is not suitable	0.538	0.47	7.43
I would be really upset if the food brand I choose prove to be poor	0.422	0.59	5.83
When you buy a food product, it is not a big deal if you make mistakes (r)	0.563	0.76	7.88
Brand loyalty (AVE: 0.553; Composite Reliability: 0.779; Cronbach's α : 0.767)			
In most food categories I generally insist on a brand I used to.	0.708	0.81	11.21
In most cases, I buy the same brand within a given food category	0.580	0.48	8.33
Until I am not disappointed by a food brand, I intend to buy it again	0.522	0.37	7.39
Subjective knowledge (AVE: 0.733; Composite Reliability: 0.893; Cronbach's α : 0.892)			
I know pretty much about food	0.804	0.74	13.67
When it comes to food, I really know a lot	0.815	0.85	14.10
I feel very knowledgeable about food (r)	0.747	0.61	11.88

Table no. 2. The critical and empirically estimated values of fit indexes

Fit indexes	The critical value suggested by the literature	The empirical value in the current research
$(\chi)^2/df$	≤ 2 (Tabachnick and Fidell, 2007)	1.241
TLI (<i>Tucker-Lewis Index</i>)	≥ 0.95 (Sharma et al., 2005)	0.980
CFI (<i>Comparative Fit Index</i>)	≥ 0.95 (Hu and Bentler, 1999)	0.985
RMSEA (<i>Root Mean Square Error of Approximation</i>)	<0.06 (Hu and Bentler, 1999)	0.038

Findings

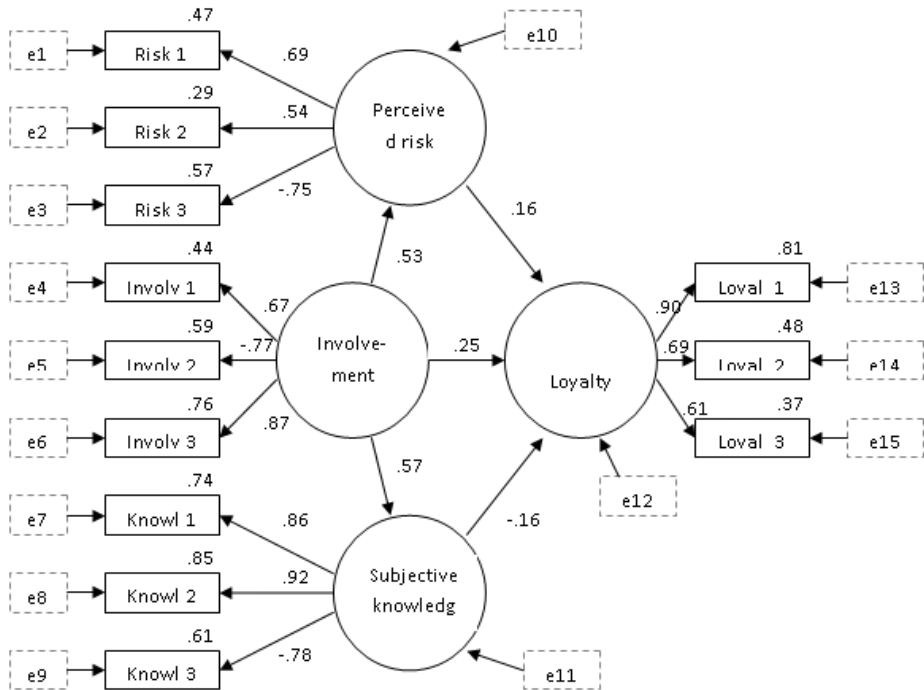
After we determined that our model meets the fitting criteria we can turn to the interpretation of the estimated parameters. As it is presented in figure 2 and table 3, the standardized regression coefficients indicate a strong relationship between enduring involvement and the two assumed mediating variables, perceived risk ($\beta = 0.53$) and knowledge ($\beta = 0.57$).

In contrast to involvement, in case of behavioural loyalty we measured a weaker association with the mediating variables. Perceived risk and behavioural loyalty show a positive relationship but only a small part of the variance of the dependent construct was explained ($\beta = 0.16$). Between subjective knowledge and behavioural loyalty we also measured a weak relationship but in addition to that, contrary to our hypothesis, this association proved to be negative ($\beta = -0.16$). We managed to reveal relatively stronger relationship between involvement and loyalty ($\beta = 0.25$).

The unstandardized regression coefficients show the estimated difference in the dependent variable caused by a unit difference in the predictor. We can test if the value of these coefficients is unequal to zero, which verify significant association between the constructs. The results show that at a confidence level of 99%, enduring involvement has an effect on perceived risk and perceived knowledge but support the

relationship with behavioural loyalty only at a confidence level of 90%. Note that the sampling size plays influential role in the statistical hypothesis testing, therefore, the results can be the reflection of our relatively small sampling size.

Figure no. 2. The research model and its estimated parameters



For the managerial implications it is crucial information that to what extent the target variables can be captured by the predictive ones in the model. We got the lowest value in case of loyalty, contrary to that this construct has the highest number of predictors. Enduring involvement, perceived risk and perceived knowledge explain only 9.4% of its variance ($R^2=0.094$).

The role of mediating variables having only one predictor can be determined by the squared standardized coefficients estimated between them, according to which involvement explains 28.4% of variance of perceived risk and 32.4% of that of perceived knowledge.

Table no. 3. Unstandardized regression coefficients and their significance level

Predictive variable	Target variable	Unstandardized regression coefficients (b)	Standard error of the coefficients	Significance level	Standardized regression coefficients (β)
Involvement	Loyalty	.259	.144	.073	.25
Involvement	Perceived risk	.487	.105	.000	.53
Perceived risk	Loyalty	.180	.140	.197	.16
Involvement	Subjective knowledge	.649	.110	.000	.57
Subjective knowledge	Loyalty	-.145	.101	.149	-.16

Based on the results, all the three hypotheses including involvement were supported, that is, enduring involvement has a positive effect on both loyalty (only at a confidence level of 90%) and the two supposed mediating concepts, perceived risk and perceived knowledge. Their mediating role was not supported since we did not find significant association between them and loyalty.

Table no. 4. Hypotheses testing results

Hypothesis	Predictive variable	Target variable	Evaluation
(H) ₁	Involvement	Loyalty	Supported*
(H) ₂	Involvement	Perceived risk	Supported**
(H) ₃	Perceived risk	Loyalty	Rejected
(H) ₄	Involvement	Perceived knowledge	Supported**
(H) ₅	Perceived knowledge	Loyalty	Rejected

* p = 0.1 level; ** p = 0.05 level

Discussion

The aim of our study was to elucidate the nature of the relationship between involvement and loyalty. To get deeper insight, we wanted to explore the role of potential mediating concepts. In our conceptual model we made effort to determine the subjective and relatively constant effects and relationships on the one hand, and measure general predictive constructs that can be interpreted to foods in general on the other hand. With the help of our empirical model we tried to achieve a better understanding of the decision-making mechanism in the buying process. After testing our research model we can conclude that our objectives were partly accomplished. Among the five hypotheses only two were supported, one only by lower confidence, and the two remaining ones were rejected since the lack of identified statistically significant association.

With respect to results, involvement plays an important role in this context and explains notable proportions of the variance of the other construct included in the model. We managed to verify its indirect effect on behavioural loyalty, although, a weaker association was determined than expected. The relative constant perceived risk and perceived knowledge related to foods also well explained by enduring involvement. However, the mediating role of the two supposed concepts was not supported by our study; therefore, behavioural loyalty in general was not explained significantly by our conceptual model. All of this indicates the more complex nature of the decision-making mechanism of customers and suggests further, explorative research directions towards the subfield of the buying process related to food products. Nevertheless, we believe that the study above contributes to the research area and provide useful inputs for other research projects.

Limitations and further research directions

Some important limitations of this study must be emphasized. First, the sample we drew is a special one including only university students, whose food related consumption and buying behaviour can be distinct. They can apply different heuristics than the whole population. Second, the sampling size was relatively small and, although it met the minimum requirements in them SEM-analysis, it could mainly influence the results of hypothesis-tests. Third, the investigation took food categories into account as a whole assuming similar patterns in each decision-making process. This, however, can be diverse across product

categories and from this point of view we measured average effects. Beside the limitations above the results cannot be generalised to other product groups due to the special characteristics of the food products albeit it was not the aim of the research this time.

As mentioned during the discussion, the results indicate the need for a further explorative study in this field to reveal other potential mediating and/or moderating concepts and special chain of effects. After this phase can be evaluated that despite the additional concepts the research model remain coherent or it is necessary to focus on some parts of it.

An issue that is worthy of investigation is how the explanatory power of the model can change if one focuses the measurement on specific product categories instead of all of them as a whole. It can reveal additional, category-specific factors that can influence the strength of associations within the model.

The literature pays lower attention to the dynamics of the concepts included in the model. The intensity of involvement can change, as perceived knowledge and risk as well. The interaction between them in time can hide interesting effects that can be worth exploring, too.

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Considerations on Modeling Strategies of the Financial Result

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Abstract

This study's objective is to highlight some of the strategies to maximize or minimize the accounting result, situated under the impulse of bad accounting. Although we assist the manipulation of the accounting result, this procedure is done according to the law, been exploited by some entities in knowledge of the lack of justice and accounting regulations.

Keywords: creative accounting, manipulation, modeling the result, accounting options, bad accounting

Introduction

The existence of accounting options allows for the usage of creative accounting. The management of the entities will be tempted and allowed to create accounting policies to maximize or minimize the financial results. In this way, if the goal of the entity is to pay a lower tax, it will apply those technical and practical procedures of the creative accounting policies which will allow having a strategy resulting lower financial result. In the other case, if the entity wants to get a loan, or acquire foreign investors, will apply those technical and practical procedures of the creative accounting policies that allow it to get a maximized financial result.

Subjectivity became a factor in determining the financial result, throughout the manipulations or intensions options of the creative accounting.

Material and methods

In this study there are highlighted a series of methods to analyze the techniques and methods to maximize and minimize the accounting result under the influence of the bad accounting, regarding the accounting options of the present accounting system as well as the lack of regulations.

Literature review

Most of the definitions of the accounting policies are seeing the phenomena towards a fair accounting, but some of the Romanian and foreign authors were preoccupied by creative accounting. Malciu (1999) says that "the concept of creative accounting was first mentioned by the British researcher and author J. Argenti in 1973. He made a direct connection between creative accounting practices, the manager incompetence and the fall of the business, highlighting the fact that the usage of the creative accounting is a clear clue for the start of a crisis. Subsequently given specialized accounting literature, we find that a number of researchers have had a number of concerns in the field of creative accounting. Although, from the existent researches we can conclude that there isn't a unique idea and concept about creative accounting. Malciu (1999) says that "different authors take into account a smaller or wider segment of an axis which stretches from a real attempt to present a realistic image to practices of <<financing outside the balance sheet>> and of <<embellishing the balance sheet>>." In this way, Bertolus (1988) qualifies accounting as "the art of trick the balance sheet". Lignom (1989) qualifies accounting as "the art to present a balance sheet". Pourquery (1991) qualifies accounting as "the art to put money asides". Ledouble (1993) doesn't hesitate to qualify accounting as a "plastic art".

Feleaga (1996) presents in his work named "Controverse contabile" (Accounting controversies) a series of arguments and point of views on creative accounting. Likewise, Feleaga & Malciu (2002) were creating the work called "Politici si optiuni contabile" (Accounting policies and options), comparing fair accounting and bad accounting. In their work they present the limits of and dimensions of the creative accounting. Fiserova says that "under the term <<creating accounting>> is hidden preventing accounting and auditorial reports about the real state of company and consequently providing if incorrect information". Stolowy shows that "the concept of creating accounting is born from the British

expression of <<creating accounting>> been used in Great Britain for a while, as shown by Naser, been introduced by Smith in his debated works.

Amat, Blake and Dowds (1999) defined creative accounting as "a process whereby accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business". They presented in their work called "The Ethics of creative accounting" the view of four British authors upon the notion of creative accounting, watched from four perspectives. Ian Griffiths writes from the perspective of journalist business, Michael Jameson from the view of the accountant, Terry Smith from the view of his experience as an investment analyst and Kamal Naser from an academic view.

Results and discussions

The accounting practices offer the entity the possibility to present, within certain limits, the results according to their intentions, rather than according to the real economic situation. Some of these accounting practices chosen by the entities, are results of one or some other accounting methods, with the objective to maximize or minimize the current financial results, lowering the public loses, temporary smoothing the financial results to reduce the perceived risk by the financial environment, etc.

Balaciu & Pop (2008) said that "six main areas are considered the source of inspiration for the creative accounting: flexibility in regulations, a lack of regulation, a scope for management that assumed some targets for the future, the timing of some transactions that use of artificial transactions, but also the reclassification and presentation of financials".

In the table below, we present a series of technical and practical procedures, for modeling the financial results under the influence of the accounting policies.

No	Analyzed Issue	Use Mechanism and its influence upon the modeling of results (maximizing or minimizing the results)
1	Revaluation of the fix assets	<p>Feleaga and Malciu (2002) show that "revaluation can represent the last measure of an entity having difficulties, to raise its equity and to artificially increase its debt capacity".</p> <p>Choosing revaluation for creative purposes may result to an impact on the outcome of the results of the financial exercise and therefore income tax. In this way, if an entity wants to pay smaller taxes, it can choose the revaluation, giving an increase of the tax base for calculating depreciation, with implications on depreciation expenditure and minimizing the financial result and the income tax.</p> <p>Feleaga (1999) says that "some companies make responsible for the excess of depreciation the revaluation differences, which limit the amount of depreciation expenses which would have been accounted for the asset if it had been maintained at an historical cost".</p>
2	Impairment of assets.	<p>The practice of "subjective impairment" of fixed assets is creating the possibility to manipulate the financial result, by maximizing or minimizing it.</p> <p>IAS 36 debates the problem of impairments of the fixed assets. If the entity aims to minimize results considering the income tax, it would surly use IAS 36.</p> <p>Let's presume that the entity determines that the analyzed asset is impaired. If its estimates that the recoverable value is under the accounting net value, it will account for an adjustment for the impairment, hence giving the reduction of the financial result and income tax. If the</p>

		entity aims for a maximizing police (for example: wants a bank loan), it won't use IAS 36, even if there were clues that at the date of the balance, (internal or external) the asset suffered impairments. For cash-generating units, the situation arises in a similar way.
3	Borrowing cost	<p>If the entity aims minimizing the results, it will account for the borrowing cost as an expense account (666), as an expense in the period in which they appeared, resulting in lower income tax.</p> <p>On the other hand, if the entity aims at maximizing its results, it will capitalize the expenses as debts. In this situation, the borrowing cost will be included in expenses over time (expenses with the impairments of the followed asset).</p>
4	Lease Operations	<p>Classification of lease contracts in finance leases and operating leases, lead to the creative accounting phenomena.</p> <p>Feleaga & Malciu (2002) say that "this classification has important results upon some indexes like borrowing rate and assets come back ratio. As follows, the entities which prefer an increase of their expenses without an effect on the assets and debts choose the operating lease contract. On the other hand, they will prefer the financial lease. Although there is a good limitation between financial and operating leases, some entities generate hybrid contracts, to finance their assets, not showing any sign or proprieties of a financial leasing".</p>
5	Leas-back Operations	<p>Cernusca (2004) shows that "if a sale and lease-back transaction results in an operating lease, its real value can change the situation. Thus, the optimistic or pessimistic estimates of fair value may be an excuse for companies that, according to the policy pursued, would want</p>

		postponement of recognition of profit or loss from the sale or recognize them immediately in full during that year's sales.
6	Building renovation expenses	<p>Expenses generated after commissioning a building may result in manipulation phenomena of the financial result.</p> <p>In this way, an entity considering that the cost following the commission of a building will guaranty the normal state of usage, it will use the 6th class accounts, expenses accounts.</p> <p>On the other hand, if the entity aims to attract foreign investors (will maximize its results), and considers that the expenses followed the commissioning of the building will rise the state value; it will utilize capitalization of those expenses. The expenses will show in the result, only under the form of depreciations spread over time.</p>
7	Treatment of goodwill	<p>The size of the goodwill is easy to manipulate, resulting in creative accounting with direct consequences on the financial results and on the income tax.</p> <p>Feleaga & Malciu (2002) show us that "undervaluation of the purchased items helps increase goodwill and provides a false image upon the returns in the future".</p>
8	Provisions for risks and charges	<p>The use of a creative accounting in the field of provisions is related to the policies used to create or eliminate them.</p> <p>If an entity aims to pay smaller income tax in the year when it produces more profit, it will apply a strategy to create provisions expenses. On the other hand, if the entity is aiming for a strategy to maximize the results of the financial exercise when it produces profit, it will not create provisions even if the situation requires it.</p> <p>In the situation when the entity generates losses and it aims to raise the financial result, it will apply a creative accounting</p>

		method in the fields of provisions, by retaking the past year generated provisions to the income.
9	Stocks	Possibilities to manipulate stocks, are related to: stock evaluations on exiting the assets, the decision to create or not to create a final product stock, treatment of interest expenses and production overheads, treatment of stock acquirement expenses (to include or not to include some of the expenses in the cost of acquirement).
10	Depreciations of fix assets	The depreciation policies used by an entity have an influence over the financial result, creating opportunity for creative accounting. The parameters which accept a creative accounting are: useful life expectancy, residual value and depreciation method.
11	Construction contracts	The entity's management decision on choosing the "Percentage of completion method" or the "Completed methods" results in a deferent impact on the final financial result and on the income tax.

Conclusions

The results of the researches conducted along the time in the field of creative accounting, determined that the financial result can be maximized or minimized using different policies and options, practiced by the management of the entity.

The presence of the accounting options and/or the imperfections of the accounting regulations offer the possibility to manipulate the financial result and the content of the financial situations.

The management of some entities is often put in the situation to use a series of techniques and policies to influence the financial result and the financial situation to be able to present the third parties a good and favorable financial situation. Therefore, it is necessary that the accounting professionals and the auditors have a fair and professional behavior, as long as they want the true image of the entities financial situations and performance.

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The impact of financial balance indicators on the companies - Analysis on economic sectors

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Abstract

The paper presents the result of a financial balance analysis of some companies, which are grouped in three economic sectors: manufacturing, construction and tourism.

The main focus consists in the impact of the three financial balance indicators have (floating capital, necessary working capital, net treasury) on the activities that underline each economic sector.

The applicative part of this paper is materialized in a scientific approach that includes a number of 27 companies, grouped after the domain, from Timis County, Romania, which has in view to obtain useful and perspective information concerning the financial balance, based on the specific behavior of the activity they perform, aiming also the possibility of taking useful and correct decisions.

This approach represents our own vision about the differences of achieving a financial balance state within each economic sector analyzed.

Keywords: financial balance, floating capital, necessary working capital, net treasury.

Introduction

In the process of knowledge, analysis is an indispensable research method, through which is created not only the possibility of research things and phenomena, but is discovered the structure, are checked and established causal links, factors that generates them and so decisions can be made for future activities. In all fields of science, the analysis plays a necessary means of knowledge as a research method.

Financial analysis is a tool of financial management. It consists of the evaluation of the financial condition and operating performance of a business firm, an industry, or even the economy, and the forecasting of its future condition and performance. It is, in other words, a means for examining risk and expected return. Data for financial analysis may come from other areas within the firm, such as marketing and production departments, from the firm's own accounting data, or from financial information vendors. [3]

The skills of financial analysis are important to a wide range of people including investors, creditors and regulators. But nowhere are they more important than within the company. Regardless of functional specialty or company size, managers who possess these skills are able to diagnose their firm's ills, prescribe useful remedies and anticipate the financial consequences of their actions. [4]

The present research is performed in order to identify solutions within the economic sector, based on financial balance indicators that can facilitate making the correct decisions on the settlement of existing problems and improve this system, taking into account the current economic context.

Economy, as it is presented nowadays, is the result of an evolutionary process of mutual exchange development of activities, from lower forms to higher ones. In such a framework are developed and operate companies that will approach, regardless of their activity profile, financial management issues whenever performing an operation for purchasing, holding or disposing titles of money.

For determining the correct financial balance of companies within one or more economic sectors, it is necessary to know that along with monetary and economic balance, the financial balance has functionality and a distinct form of expression due to objective essence of finance, the manifestations functions of money, financial institutions, banking and insurance.

At the level of companies this financial balance is based on economic relations specific to market economy which by some methods, techniques and characteristic forms, participate in the formation and allocation of funds that are available to economic agents, aiming to achieve economic processes.

Literature review

The term of balance is more and more used in various fields, especially in economics.

The word “balance” is present in our daily vocabulary of each of us. The question is why and what is the meaning of this word.

Etymologically, the word itself comes from Latin "aequilibrium" (*aequs* = equal; *libra* = balance), expressing the idea of equal forces, the weights placed on the two plates of the balance. [6]

In a general sense, balance means stability of a situation, a harmony between the components of a system, which in a financial plan involves harmonizing the financial resources with the financial needs of a company and therefore equality between assets and liabilities. [1]

Among the many definitions of the financial balance, we believe that the most pertinent is the following: The financial balanced analysis of a company patrimony aims to reflect the equality relations between the financing sources and use of financial resources, between revenues and expenses related to carry out the company business activity on long, medium and short term. [5]

The objective of financial balance analysis is to follow on the one hand, the correlation, coordination of financial sources used in terms of duration, and on the other hand, the insurance that payments are done from receipts. Practically, the state of financial balance does not exist; it is just a trend that is constantly moving, dynamic. Namely, the state of harmony and stability in the relations of the structure elements is not given once and for all. There are a lot of states that come under the influence of others who have suffered from imbalance factors. [7]

Within an economic sector, at a level of a company, the static analysis of the financial balance can be done on three levels:

A. For measuring the *long-term balance* it is used the **floating capital** indicator, when permanent resources are compared with permanent uses. In other words, the indicator represents the part of permanent capital that exceeds the value of net immobilizations and can be destined to financing circulating assets.

The floating capital (FR) is calculated based on the financial balance sheet, as the difference between permanent capital (CP) and net immobilizations (Ain):

$$FR = CP - A_{in}$$

Therefore, the floating capital constitutes a prerequisite to maintain solvency of a company, namely its financial independence from creditors. [2]

B. For measuring the *short-term balance* it is used the **necessary working capital** indicator, defined as the part of circulating assets that has to be covered by permanent capital. In other words, the net working capital is what would be left over if the company had to pay off its current obligations using its current assets. The relation for calculating the necessary working capital (NFR) is:

$$\text{NFR} = \text{Current Assets} - \text{Current Liabilities}$$

or

$$\text{NFR} = (\text{Inventories} + \text{Receivables}) - (\text{Short term debts} - \text{Short term loans})$$

Therefore, the necessary working capital designates the financial needs generated by the execution of repetitive operations that compose the current exploitation cycle (purchases, sales, payroll payments) whose total must be covered at least partially by stable resources (net working capital). This indicator represents the money that has to run within a company in order to ensure its operation (after financing the immobilizations), which requires expenses that will be recovered when the customers will pay the bills. [9]

C. For measuring the *current balance* it is used the **net treasury** indicator that represents the image of money availabilities and short-term investments, occurred from the current evolution of receipts and payments, respectively the placement of monetary surplus. [8]

The net treasury (TN) can be determined based on the difference between floating capital (FR) and necessary working capital (NFR):

$$\text{TN} = \text{FR} - \text{NFR}$$

Therefore, the financial stability of the company results from the confrontation large masses of the balance sheet: floating capital with necessary working capital, from which results the net treasury. Treasury is the most meaningful expression of carrying out a balanced and effective activity. Treasury shows the quality of the company's overall financial balance both long term and short term. Registering a treasury in several successive exercises, demonstrates the company's success in

economic life and the possibility of placing profitable cash in order to strengthen its market position.

Material and methods

In the next case study, the financial balance analysis is performed through a static approach, namely the indicators are calculated based on information within the financial balance sheet and profit-and-loss account.

By calculating these indicators we aim to identify the weaknesses of these economic sectors and formulate suggestions regarding their remedy.

The data to which we refer within the undertaken study are out of a sample of 27 companies from Timiș County, Romania, and are grouped into three economic sectors (manufacturing, construction and tourism) to identify the particularities of each sector, on a reference period of four years (2008-2011), from the financial balance point of view.

Sector 1 - Includes the *production* activity of enterprises;

Sector 2 - Includes the *construction* activity of companies;

Sector 3 - Includes the *tourism* activity of firms.

Results and discussion

Based on the data held and calculation of financial balance indicators, I have obtained the following results:

- For sector 1 – Production, situation is as follows:

- Floating capital

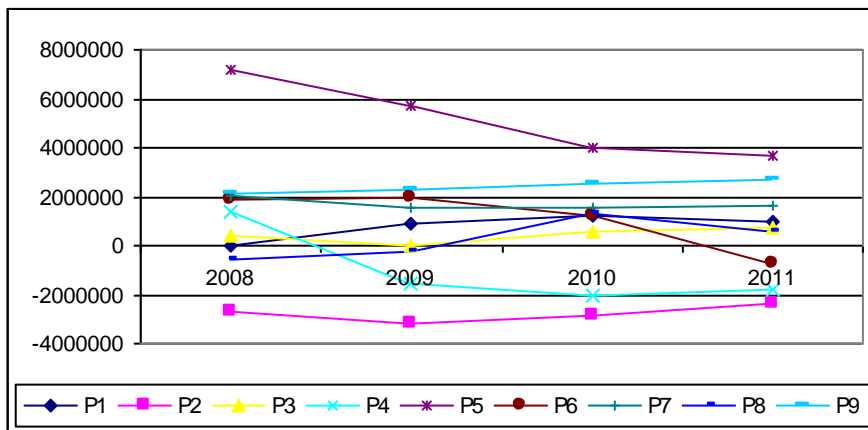
Table no. 1 The results of floating capital in the period 2008 - 2011 for enterprises in the production sector

Production enterprise / Time span	2008	2009	2010	2011
P1	-36247	864101	1225573	1004791
P2	-2668268	-3198442	-2895364	-2364988
P3	401467	23113	543548	760117
P4	1377303	-1586240	-2014700	-1755407
P5	7161521	5707823	4029085	3703495

P6	1887293	1950212	1256081	-703256
P7	2000931	1543598	1514041	1636263
P8	-570377	-252150	1314835	556021
P9	2094876	2302383	2550787	2712226

Source: own compilation

Figure no. 1 The comparative evolution of floating capital in the period 2008 - 2011 for enterprises in the production sector



Source: interpretation after Table no. 1

Through the analysis of the existing data and their graphical representation, it is noticed that a number of 4 enterprises (P3, P5, P7 and P9) within this economic sector, recorded a positive floating capital during the entire period 2008 - 2011. The remaining enterprises register positive values, accompanied by negative values; except enterprise P2 which the entire analyzed period registers a negative floating capital almost constant, followed by a slight improvement.

➤ Necessary working capital

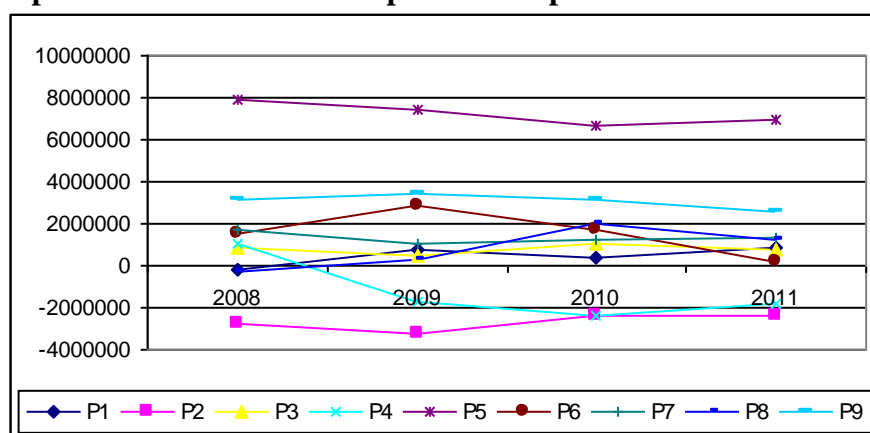
Table no. 2 The results of necessary working capital in the period 2008 - 2011 for enterprises in the production sector

Production enterprise / Time span	2008	2009	2010	2011
P1	-157645	777360	386681	857620
P2	-2743707	-3220104	-2396423	-2417048
P3	863998	485873	1014349	803010

P4	1045491	-1747921	-2419101	-1843416
P5	7926363	7436040	6619307	6917202
P6	1522000	2858360	1731310	158035
P7	1725098	1004253	1234295	1301518
P8	-253398	331642	2030973	1247599
P9	3099326	3387862	3186233	2524384

Source: own compilation

Figure no. 2 The comparative evolution of necessary working capital in the period 2008 - 2011 for enterprises in the production sector



Source: interpretation after Table no. 2

Based on the graphical representation is remarked that the 4 enterprises (P3, P5, P7, P9) which recorded a positive floating capital, also have achieved a positive necessary working capital (including P6) through the entire analyzed period 2008 - 2011. During all this time, P2 has a negative value in both indicators cases, and P4 in 2010 obtains a value approximately equal to it, in terms of necessary working capital.

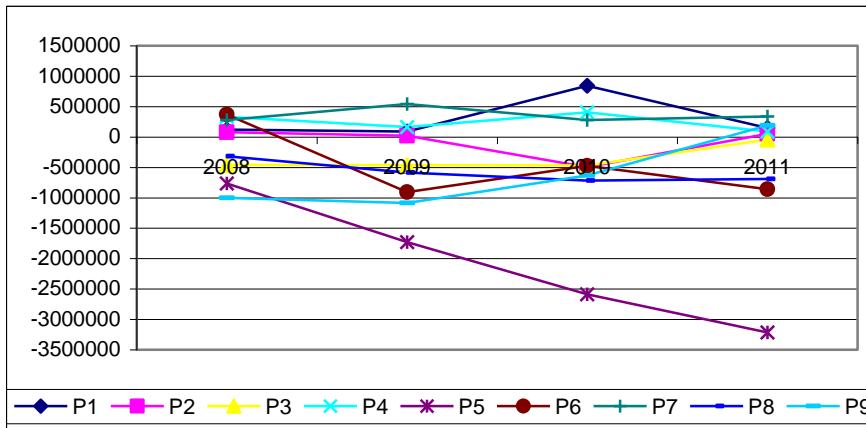
➤ Net treasury

Table no. 3 The results of net treasury in the period 2008 - 2011 for enterprises in the production sector

Production enterprise / Time span	2008	2009	2010	2011
P1	121398	86741	838892	147171
P2	75439	21662	-498941	52060
P3	-462531	-462760	-470801	-42893
P4	331812	161681	404401	88009
P5	-764842	-1728217	-2590222	-3213707
P6	365293	-908148	-475229	-861291
P7	275833	539345	279746	334745
P8	-316979	-583792	-716138	-691578
P9	-1004450	-1085479	-635446	187842

Source: own compilation

Figure no. 3 The comparative evolution of net treasury in the period 2008 - 2011 for enterprises in the production sector



Source: interpretation after Table no. 3

It can be seen that along the analyzed period, the net treasury registers a positive value at the following enterprises P1, P4, P7, and a negative one at P3, P5, P8 at which the necessary working capital can not be entirely financed through the floating capital. On the chart is observed the strong descending trend of enterprise P5 and also the significantly worsened situation from year to year.

On the whole observed enterprises and the entire period 2008 - 2011, it's found that only enterprise P7 obtains positive values at all three analyzed indicators, which gives her financial stability.

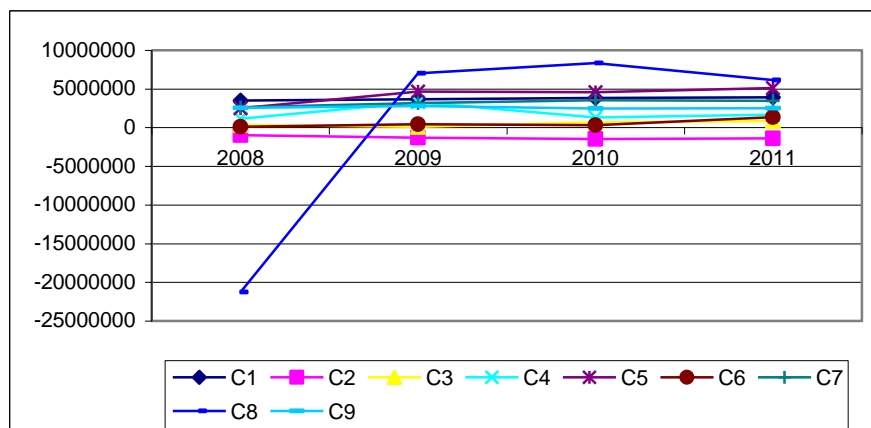
- For sector 2 – Construction, situation is as follows:
 - Floating capital

Table no. 4 The results of floating capital in the period 2008 - 2011 for companies in the construction sector

Construction company / Time span	2008	2009	2010	2011
C1	3482579	3669905	3813059	3894353
C2	-972967	-1321422	-1481721	-1401521
C3	342952	103032	683421	855988
C4	1123205	3289758	1307900	1690257
C5	2495792	4654982	4578281	5094605
C6	105462	450902	310622	1336601
C7	2607946	3174452	3556463	3456802
C8	-21262716	7018528	8345338	6157516
C9	2558050	2797705	2476599	2511726

Source: own compilation

Figure no. 4 The comparative evolution of floating capital in the period 2008 - 2011 for companies in the construction sector



Source: interpretation after Table no. 4

After the calculations it is noted that the entire analyzed period 2008 - 2011 is marked by positive values of the floating capital, by most companies C1, C3, C4, C5, C6, C6, C7 and C9. Instead, C2 is the only company that records in all four years a negative value and it is worsening from one year to another. The same can not be said about company C8 which has a strong ascending trend in 2008 that starts with a negative value and reaches a positive one in 2009 and remains until the end of 2011.

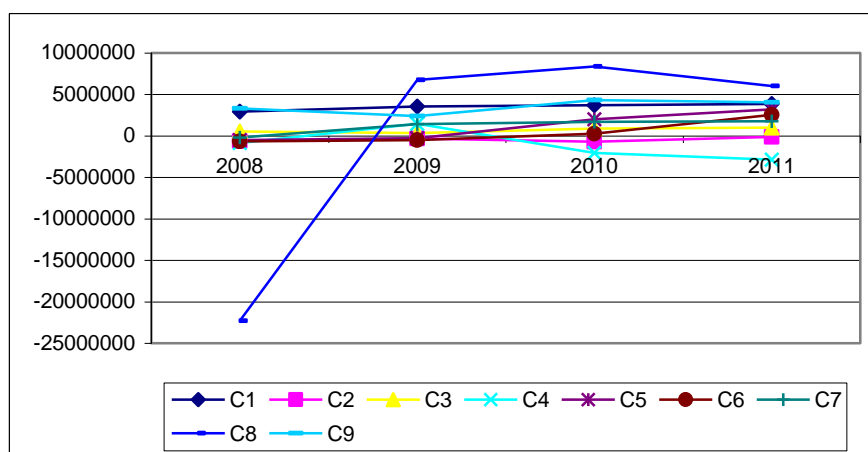
➤ Necessary working capital

Table no. 5 The results of necessary working capital in the period 2008 - 2011 for companies in the construction sector

Construction company / Time span	2008	2009	2010	2011
C1	2921039	3551173	3700294	3844987
C2	-625776	-317671	-685755	-120720
C3	550450	348217	877873	994334
C4	-842875	1467777	-2035145	-2846093
C5	-503884	-259240	2021081	3214488
C6	-672305	-497488	268606	2562403
C7	-210156	1421092	1712377	1756876
C8	-22302525	6751130	8390563	6026176
C9	3326608	2383184	4334578	4039363

Source: *own compilation*

Figure no. 5 The comparative evolution of necessary working capital in the period 2008 - 2011 for companies in the construction sector



Source: interpretation after Table no. 5

Based on the data presented (in table no. 5) and the graphical representation (figure no. 5) it can be seen that during 2008 – 2011 the necessary working capital registers preponderant positive values, except C2 which has a negative value during all this period. The same as in the floating capital case, the necessary working capital of company C8 has a strong ascending trend in 2008 that starts with a negative value and reaches a positive one in 2009 and remains the same until the end of 2011.

➤ Net treasury

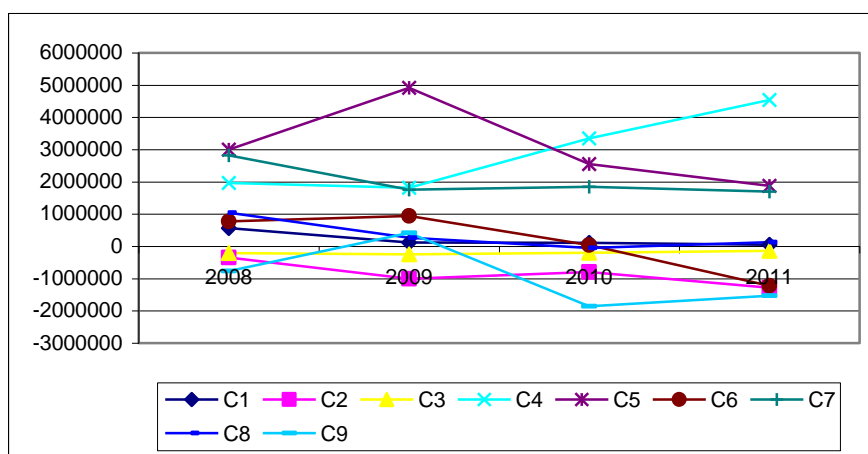
Table no. 6 The results of net treasury in the period 2008 - 2011 for companies in the construction sector

Construction company / Time span	2008	2009	2010	2011
C1	561540	118732	112765	49366
C2	-347191	-1003751	-795966	-1280801
C3	-207498	-245185	-194452	-138346
C4	1966080	1821981	3343045	4536350
C5	2999676	4914222	2557200	1880117

C6	777767	948390	42016	-1225802
C7	2818102	1753360	1844086	1699926
C8	1039809	267398	-45225	131340
C9	-768558	414521	-1857979	-1527637

Source: own compilation

Figure no. 6 The comparative evolution of net treasury in the period 2008 - 2011 for companies in the construction sector



Source: interpretation after Table no. 6

It can be observed that the companies C1, C4, C5 and C7 have a positive net treasury (TN) during the entire period 2008 - 2011 with an increasing and also a maintaining trend. This is because floating capital (FR) is higher than the necessary working capital (NFR), namely FR covers fully the NFR, remaining a surplus of permanent sources, materialized in positive treasury; whereat companies find themselves in a favorable situation in terms of financial balance, where they have the possibility of performing capital investments, holding cash and can handle payment obligations falling due short-term and also medium and long term. Also, it is observed that C1 is the only company that obtains positive values at all three analyzed indicators, which gives her financial stability.

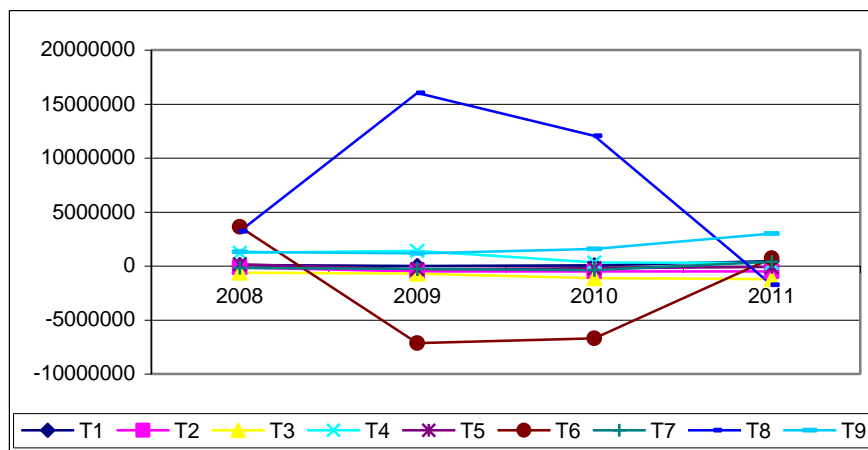
- For sector 3 – Tourism, situation is as follows:
 - Floating capital

Table no. 7 The results of floating capital in the period 2008 - 2011 for firms in the tourism sector

Tourism firm / Time span	2008	2009	2010	2011
T1	86864	8570	71455	456658
T2	-144059	-513048	-500051	-503953
T3	-625345	-716342	-1113224	-1230304
T4	1215670	1403317	333041	261228
T5	142676	-299960	-221409	-90107
T6	3606253	-7138246	-6714999	721137
T7	-190141	-261205	-381566	385867
T8	3201624	16033528	12061631	-1756772
T9	1294805	1156902	1569293	3000364

Source: own compilation

Figure no. 7 The comparative evolution of floating capital in the period 2008 - 2011 for firms in the tourism sector



Source: interpretation after Table no. 7

It is ascertained that during the entire analyzed period 2008 - 2011, the floating capital is positive only at T1, T4 and T9, exception makes T8 which has a significant positive trend that registered only in 2011 a

negative value. From the chart results that at the opposite pole are T6 which has a negative value in the years 2009 and 2010, but the indicator has a significant ascending trend that returns to a positive value in 2011 similar to the one in 2008. A negative value registers firm T2 whose tendency remains constant and also T3 which has a descendent trend.

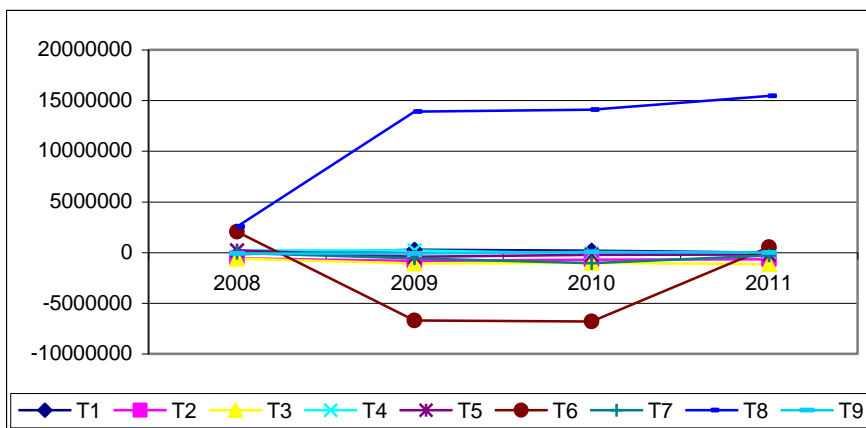
➤ Necessary working capital

Table no. 8 The results of necessary working capital in the period 2008 - 2011 for firms in the tourism sector

Tourism firm / Time span	2008	2009	2010	2011
T1	-174278	268149	194205	-16578
T2	-576760	-846189	-718535	-661756
T3	-613250	-1080870	-1019937	-1142844
T4	222701	198138	-100865	-17626
T5	204601	-425508	-230587	-187106
T6	2058147	-6707463	-6815333	513741
T7	-49672	-594444	-1065268	-308747
T8	2536034	13883919	14095026	15442993
T9	-98887	-91177	51018	3252

Source: own compilation

Figure no. 8 The comparative evolution of necessary working capital in the period 2008 - 2011 for firms in the tourism sector



Source: interpretation after Table no. 8

In the interval subjected to analysis, the necessary working capital registers at most firms (T1, T4, T5, T6 and T9) positive values, accompanied by negative ones; where T6 has almost the same graphical representation as for the floating capital; less than firm T8 that during the entire analyzed period registered a significant positive trend. Similar to the evolution of floating capital in the period 2008 – 2011 within firms T2, T3, also the necessary working capital registers negative values, to which is added and T7.

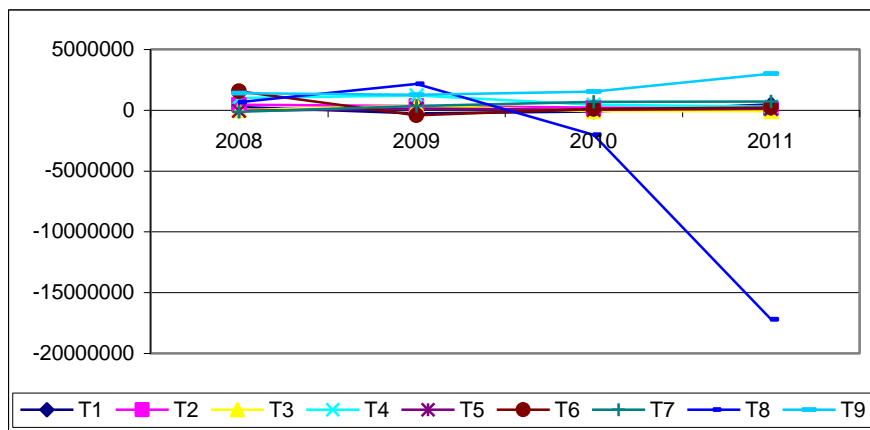
➤ Net treasury

Table no. 9 The results of net treasury in the period 2008 - 2011 for firms in the tourism sector

Tourism firm / Time span	2008	2009	2010	2011
T1	261142	-259579	-122750	473236
T2	432701	333141	218484	157803
T3	-12095	364528	-93287	-87460
T4	992969	1205179	433906	278854
T5	-61925	125548	9178	96999
T6	1548106	-430783	100334	207396
T7	-140469	333239	683702	694614
T8	665590	2149609	-2033395	-17199765
T9	1393692	1248079	1518275	2997112

Source: own compilation

Figure no. 9 The comparative evolution of net treasury in the period 2008 - 2011 for firms in the tourism sector



Source: *interpretation after Table no. 9*

The firms from the economic sector that register a positive treasury are T2, T4 and T9, where for T2 and T4 the trend is slightly decreasing and for T9 the tendency is growing. Note that there is no firm with negative treasury during the entire analyzed period 2008 - 2011, which results that the majority of firms have positive values, accompanied by negative ones. On short-term a positive net treasury means achieving financial balance, but long term can mean insufficient use of liquidities, with negative effects in remuneration of capital, where the purpose of the firm is not holding the cash, but their involvement in efficient activities.

Conclusion

Based on the data analysis and graphical representations of indicators, it can be observed that the manifestation of economic turbulence, taking into account the current context, is much more striking in the tourism sector compared to the production and construction sectors. Therefore, taking into account the analysis performed and evolution of indicators, is noticed that the most favorable situation within the economic sectors, taking into account the indicator (floating capital) that express a long-term balance, is found in the construction sector followed by the production sector and finally by the tourism sector.

Starting from the results obtained, I consider that the key element how a company can maintain its financial balance is based on the developing of a consistent financial strategy, in correspondence with the company's strategy and also implementing a rigorous system of registration and management control along with an integrated financial planning system correlated on different terms.

Getting a positive floating capital can be achieved either by reducing the immobilized assets or by raising permanent capital. In this case, the companies that recorded a positive floating capital in all four years analyzed are as follows: in the production sector P1, P5, P7, P9, in the construction sector all companies less C2 and C8 and within the tourism sector only T1, T4 and T9. The balance can be ensured also with a negative floating capital only if the period of the commercial credit is less than the supplier credit, and, to achieve this correlation, the company must accelerate incomings and get more relaxed payment terms.

An issue of every company, no matter in which economic sector operates, is represented by the level and evolution of the necessary working capital. Therefore, I will mention a few directions of action, to improve and strengthen the financial balance, as follows:

- Inventory of total stocks in order to improve their management efficiency, which should lead to an increased real liquidity of current assets;
- To achieve an effective management of operating debts, the company must follow a higher average duration of payment as number of days;
- Must be carried out a better correlation between the average duration of commercial receivables and the payment of exploitation debts, in order to determine a favorable impact on the treasury;
- In order to obtain an efficient administration of current receivables the commercial policy of the company must be correlated with the practice of the competition.

The growth of net treasury, from one year to another, can be done by increasing the floating capital and by reducing the necessary working capital; in our case, during the entire period analyzed are companies C4 and T9.

In our opinion, for a company, a viable general policy, with operative and courageous adaptations to drastic market changes,

represents the main condition of survival. Among the strategic objectives which are included in each economic unit development line, it can not be omitted the financial decisions, the desire of leading the company in order to achieve a financial balance based on consumption and production processes able to face competition, taxation and high levels of inflation.

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Mystery Written on Prescription Pads: Exploring Marketing Factors Influencing Prescription Behaviour using the AHP Approach

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Abstract

The Indian Pharma market is highly fragmented & nature of competition is intense. Further, in modern times influencing doctors' prescription decision has become very complex as there is little systematic knowledge about factors affecting the doctors' prescription behaviour and the weight of individual factor. This study aims to demystify this complex prescription behaviour of doctors, through examining the above mentioned factors. For this purpose, a focus group study will be followed by a quantitative study using the Analytic Hierarchy Process (AHP) approach. The findings of the study will have important implications for the marketers in order to do proper allocation of their resources, to improve their promotional efficiency.

Keywords: behaviour, doctors, English, marketing, pharma, prescription.

Introduction

The Indian pharmaceutical market is a US\$ 9 billion opportunity and ranks 4th globally in terms of volume. In terms of value it produces 20-24 per cent of the world's generic drugs. India is also one of the top five active pharmaceutical ingredients producers, volume wise with a share of about 6.5 % (Anonymous, 2011). In the last decade, after a

period of sustained growth, the domestic market began to decelerate since the beginning of Q3-FY11 largely prompted by intense competition. Further, the growth rates slipped quite sharply in H1-FY12 on back of spill over of pricing pressure even to the chronic segments (Ghosh et al., 2012).

But, endorsing the strong future growth signals of the Indian Pharma industry, Goldman Sachs report predicts that India will be the 5th largest Pharma market in the world by 2020, with sales of \$43 billion (Roy, 2007). Many experts opine that the Indian Pharma industry is a sunrise industry where structural demand drivers include rising household income levels, increasing prevalence of lifestyle related diseases, improving healthcare delivery systems in smaller towns and rural areas. Coupled with some multimillion \$ pharma brands going off patent in USA & Western Europe in near future, markets like India is would keep on gaining attention of MNCs.

The competitive pressure in the Indian Pharma market has been rising steadily for some time now (Ghosh et al., 2012). The Indian Pharma market is having approx 20,000 registered manufacturers and over 70,000 brands; reflecting brand clutter (Chiplunkar, 2009). However, competitive pressures in the Indian market are likely to sustain as MNCs become aggressive and domestic companies leverage on their expanded field force. This is the reason why despite of increasing consolidation, the market continues to remain highly fragmented with top ten Pharma companies accounting for only 35-40% of the market (Ghosh et al., 2012).

Further, pharma market is typical in the sense that the doctors are the one who decides therapy and drugs for the consumers (patients). So, marketers promote their products directly to doctors to influence favorable prescription generation by them. Prescription behavior of doctors further increases peculiarity as doctors' choice is more logical for choosing a therapy & drug molecule but when it comes to selecting a particular brand their decision may be more inclined towards emotional and less rational (Blackett, 2001).

Due to this fierce competition and peculiar nature of the Indian Pharma market, promotional expenditure averages 20-35% of sales turnover of the industry mainly targeted at influencing the prescription behavior of Doctors (PharmaBiz, 2007). Here, personal selling is the most widely employed method in pharma marketing in India. Although very costly in nature, it touches the essence of pharma marketing i.e.

prescription generation. Indian Pharma companies are spending a huge and ever-increasing budget on doctors' visits (sales calls by pharmaceutical representatives) for this purpose.

At the same time, promotional budget has further undergone many fold increase due to sampling, symposiums, incentives etc. Yet marketers are in a great dilemma about what drives the doctors towards a particular prescription behavior. Of these factors influencing prescription behavior, some could be manipulated by the marketers say sampling, frequency of medical representative's visits (referred in the study as marketing factors); while others may not be like doctor-patient interaction, peer influence etc.

If various factors related to marketing activities affecting doctors' prescription behavior can be identified and weighted, then this insight could contribute greatly in resolving the controversy on how marketing efforts of pharmaceutical firms affect prescription behavior. Further, such insights could help marketers in maneuvering relevant factors for favorable prescription generation.

In today's highly competitive pharmaceutical market, marketers are increasingly concentrating on studying the prescription trends and the prescribing behavior of physicians (Chaganti, 2005; Bhardwaj & Jadeja, 2009). In this context, current research attempts to examine the select marketing factors which influence doctors' prescribing decisions and to analyze the complex interactions of such factors.

Literature review

Existing related literature suggest conflicting views on effectiveness of promotional efforts in terms of influencing doctors' prescription behaviour. Gönül et al. (2001) suggested that firms' marketing efforts may have a positive effect on prescription behaviour, as detailing visits and symposium meetings provide valuable information to the doctor on efficacy and side effects of the particular drug. Further elaborating on the same, Manchanda & Chintagunta (2006) suggested that a Pharma companies marketing efforts may actually have both an informative role (e.g. reducing cognitive uncertainty) and a persuasive role (e.g. inducing positive affect towards a drug).

On the other hand, Mizik & Jacobson (2007) reported that marketing efforts by pharmaceutical companies to the doctor positively affect new prescriptions issued by a doctor, but the effect size was

found to be modest. They cast doubt about a strong and positive effect of marketing efforts on doctor prescription behaviour as evidenced in their study using aggregate and individual-level data. Similarly, Narayanan and Chintagunta (2004) found that marketing efforts by pharmaceutical companies to the doctor positively affect prescriptions issued by a doctor, but there are diminishing returns to detailing. McKinsey Report (2002) also suggested that the nowadays Doctors' Visits give lower return on marketing investment due to increasing numbers of medical representatives. Thus it has not much influence on Doctors' prescription behaviour. Further, Venkatraman & Stremerch (2007) reported that doctors' prescription behaviour is quite unresponsive to marketing efforts by pharmaceutical firms and even sales calls may even have a negative effect.

The related literature also suggest several possible factors if manoeuvre properly may have a role in influencing the prescribing behaviour of doctors (Howie 1976; Schumock et al., 2004). Ingole & Dube (2010) explored how physician's drug prescribing is influenced by drug promotion done by medical representatives. Study revealed that the sales representatives of different Pharma companies are the commonest source of information and latest updates on drug developments. The information provided by the medical representatives is brief and can be considered for initial information but should further clarify with other reliable source of information. Majority of the physicians opined that the medical representatives actually provide newer and latest updates on medicines which influence their prescriptions. At last, they concluded that sales promotion and incentive strategies could influence physician's decision making while selecting a pharma brand.

Further, Sharma (2012) elaborated that it is vital that sales professionals become involved in the process doctors must go through in order to change their clinical behaviours and prescribing habits. If the information a representative has to offer is presented to the physician as an opportunity for learning and improving the problem-solving process, everyone benefits – the doctor, the patients and the representative. He suggested that Pharma companies should provide training to representative so as to make it possible for them to contribute to that learning process and meet their goals more quickly. More specifically, Manchanda, Rossi & Chintagunta (2004) reported that medical

representatives' detailing positively affects doctors' prescription behaviour, but that high-volume doctors, while being detailed more, are less responsive to detailing as compared to low-volume doctors. Narayanan (2006) found that while detailing influenced doctors positively in an overwhelming number of cases, there was significant heterogeneity in doctor responsiveness to detailing. But, Rosenthal et al. (2003) did not find any robust and significant effects for the detailing at the individual brand level.

In context of sampling as promotional exercise, Chew et al. (2000); Duffy & Clark (2003) suggested the motives doctors have when dispensing free samples to their patients are financial savings for patients; convenience; initiating therapy immediately; demonstrating the appropriate use to patients; adjusting prescribed doses before the full prescription is purchased and evaluating early effectiveness or adversity. Thus samples provided by the Pharma companies tend to serve some decent purposes of the doctors. Neslin & Scott (2001) argued that a doctor may financially subsidize low-income or low-coverage patients through sample dispensing, in which case a drug prescription usually comes with a free sample. In such cases sampling may have strong positive influence on their prescription behaviour. Symm et al. (2006) also reported that family physicians who distribute free drug sample medications are more likely to prescribe these medications than those who do not. Their study revealed that the free drug samples distributed for medications is for 3 reasons i.e. to reduce the cost of high cost medications as a service to the patients, to immediate beginning of therapy to the patients and to evaluate the tolerance dose for the patients and also to adjust the dose therapeutically suitable for the patients. They concluded in their study some family physicians have influence of free drug sample distribution strategy of Pharma companies on their prescriptions.

Vakratsas & Kalyanaram (2010) studied the price sensitivity of physicians for select drugs in and attempted to distinguish between probability and frequency of prescription effects. They reported that physicians are price sensitive with respect to frequency but not probability of prescription. In other words, they would not exclude a drug from prescription due to its higher price, but would prescribe it at a lower frequency. Thus, physicians are selectively price sensitive, which we interpret as an effort to balance quality and cost considerations. But, some authors reported insignificant effect of price of a drug on doctors'

prescription behaviour (Kolassa, 1995; Iizuka & Jin, 2005). The prevailing view is that physicians possess limited information about the distribution of prices of prescription drugs and are generally focused on the effectiveness of the drug than its cost. Further, Vakratsas & Kalyanaram (2010) reported that the extent of influence of the price of the drug is subject to doctors' specialization and length of practice.

Further, many authors reported miscellaneous factors which would influence doctors' prescription choice of drug and the brand. Talgeri & Chiplunkar (2002) reported that easy and extensive availability of a particular product of a Pharma company has a strong positive influence over prescription behaviour towards that particular product. Gönül et al. (2001) suggested that the doctors while prescribing medicine brand for a specific disease, consider the regular visits from the medical representatives very important. Bansal & Das (2005) stated that many of doctors do not consider accepting small gifts as unethical and these types of inputs influence their prescription pattern. They reported doctors' opinion on incentives that these types of expensive gifts and financial support activities are the aggressive marketing strategies of Pharma companies and since they are getting benefited then they should also give benefits to Pharma companies in return.

On the basis of extensive literature reviews following research questions were designed:

RQ1 - What are the significant marketing factors influencing doctors' particular prescription behaviour and how doctors prioritize these factors according to their importance?

RQ2 - What is the effect of doctors' length of practice on their response towards marketing activities while controlling the effect of doctors' specialization?

RQ3 - What is the effect of doctors' patient volume on their response towards marketing activities while controlling the effect of doctors' specialization?

Methodology

In the study, both qualitative (focus group study) and quantitative (survey) studies were involved to explore the research questions.

Focus group

A key-informant focus group method was used in this research to explore the opinions & perceptions of participating doctors about marketing activities of pharma companies and its impact on their prescription behaviour. Key-informants were the doctors from heterogeneous background in terms of specializations & experience, who had knowledge on the subject. This method was used because its effectiveness in identifying & in-depth exploration of the participants' attitudes, experiences and reactions (Jarvenpaa et al., 2005).

Planning and Conducting Focus Group

Participants of focus group, 8 to 10 in numbers were selected from a heterogeneous pool. Discussion session was planned for 1.5 hours and consisted of 2 sections. Session started with an overview of the research objectives.

In 1st section participants were provided with closed-ended questions to answer briefly. Section 2 consists of free discussion about the given talk points and open-end questions were used to extract activities, anecdotal stories, evaluations, and emotions related to prescription practices and behaviour. The whole discussion was recorded by video-tape and note-taking.

Same procedure was repeated with 4 more focus group until theoretical saturation was achieved. Coding took place concurrently with data collection. For instance, a focus group, once conducted, was transcribed and analysed immediately, prior to conducting the next focus group. Then, data from the second group were compared with the emerging theory so that new avenues could become evident.

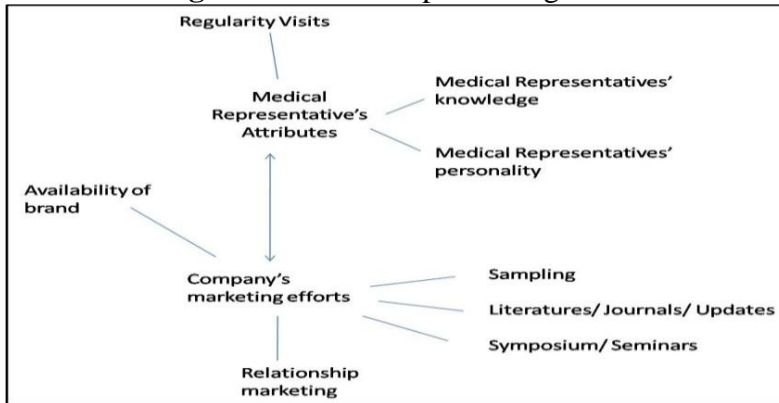
Findings of Focus Group

Focus group discussion led to an important point that the doctors' specialization (e.g. general practitioner, cardiologist, endocrinologist etc.) may affect the way a doctor would respond to some promotional efforts. Secondly, influence of doctors' length of practice and patient volume may have influence on doctors' response to promotional activities.

Further, extensive analysis (focus coding, constant comparison) of outcomes of focus group study led to identification of 8 marketing factors and subsequently to the conceptual integration (Figure 1). This conceptual integration potentially explaining influence of specific

variables on prescription behaviour of the doctors formed the basis of further quantitative study.

Figure no. 1. Conceptual Integration



Survey

For the purpose of quantitative study, an Analytic Hierarchy Process (AHP) approach was adopted. The AHP was proposed by Saaty in 1980 for individual as well as group decision making. AHP approach has been proposed in literature as a highly effective approach to dynamic and complex real world multi-criteria decision making problems (Albayrakoglu, 1996; Carlsson & Walden, 1995). And, obviously a doctor's prescription choice is a complex decision making problem. To add further complexity choosing which brand for particular drug molecule becomes more critical and is influenced by multiple factors.

In the AHP process, data on decision makers' judgments, called pair-wise comparisons are aggregated and the degree of importance of each alternative is quantified reflecting rationale behind selecting & prioritizing alternatives (Sato, 2004). This procedure identifies not only the most important alternative, but also the preference for all alternatives. Therefore, by applying the AHP to survey research questionnaires, respondents' perceptions can be clarified more precisely than by traditional methods (Sato, 2001).

Measurement & Scale Design

On the basis of literature review & findings of the focus group, questionnaire was designed using AHP- paired comparison scale asking how much important is one factor in prescription decision making than

the other factor (Table 1). Part I of questionnaire asked respondents to make pairwise comparison of total 8 marketing factors influencing prescription behaviour. Part II of questionnaire dealt with demographics questions along with information on specialization of practice (specialty vs. non-specialty; using prevailing industry norms), length of practice in terms of number of years and patient volume (no. of patients seen in an average day).

Table no. 1. Pairwise Comparison Scale

Intensity	Definition	Description
1	Equal importance	Two factor contribute equally to prescription decision making
3	Moderate importance over other	Experience and judgment favor one factor over the other in prescription decision making
5	Strong importance over other	Experience and judgment strongly favor one factor over the other in prescription decision making
7	Very Strong importance over other	Experience and judgment very strongly favor one factor over the other in prescription decision making
9	Extreme importance over other	The evidence of favoring one factor over the other is of the highest possible order of affirmation in the prescription decision making
<i>2, 4, 6, 8 Intermediate values when compromise is needed</i>		

Data collection & Screening

Purposive sampling technique was used and questionnaire was administered personally for data collection. Total 879 questionnaires were returned (69.5% response rate). 56 responses were not suitable for analysis either due to large amount of missing values (subject to case wise deletion) or due to presence of outliers ($|z| > 3$; Kline 2005).

Further, data was tested for normality using skewness and kurtosis indices. Here, data was regarded as univariate normal as the skew index ranged from -.62 to .75 and kurtosis index ranged from -.76 to .51.

Analysis and findings

AHP Pairwise Comparison Matrix Estimation

Respondents’ judgments obtained using the AHP scales were subject to AHP_input spread sheet analysis, using geometric means of pairwise comparisons reported by all respondents. F_{ij} ($i, j = 1, \dots, 8$) denoted the relative weight of factor i to j , where $F_{ji} = 1/F_{ij}$. For example if some respondent judged sampling (i) to be moderately important over relationship marketing (j) then $F_{ij} = 3$. Here, the results of all pairwise comparisons were summarized as an 8×8 reciprocal pairwise comparison matrix, where $a_{ii} = 1$ for all $i = 1, \dots, 8$. This resulting output produced composite priorities/ weights for factors (Table 2); answering the 1st research question.

Availability of a brand (.268) was the highest weighted factor which doctors perceived to be influencing their prescription behaviour, followed by relationship marketing (.179), sampling (.175). On the other hand, symposium/seminars (.024) and literature/journals/updates (.029) were perceived to be least important factors.

Table no. 2. Composite Priorities of Marketing Factors

Factors ($n = 8$)	Composite Priorities	Eigenvalue (EgV)
Availability of Brand	.268	8.0089 ideal value= $n = 8$
Relationship marketing	.179	
Sampling	.175	
Regularity of visits	.162	
MR’s Product Knowledge	.129	
MR’s personality	.033	
Literature/Journals/ Updates	.029	
Symposium/Seminars	.024	

As expected, pairwise comparison matrix didn’t satisfy transitivity criteria (i.e. for arbitrary i, j and k , $a_{ik} * a_{kj} = a_{ij}$ ($i, j, k = 1, \dots, 8$) because high degree of complexity & subjectivity involved in prescription decision making. So its Frobenius root was not equal to number of factors ($n = 8$) suggesting natural judgmental inconsistently. Statistically, this level of inconsistency was estimated through Consistency Ratio, for which first Consistency Index (CI , .00128) was estimated using eigenvalue (EgV) for $n= 8$, as

$$CI = \frac{EgV - n}{n - 1}$$

Subsequently, using Consistency Index (*CI*) referring Random Index Value (*RIV*= 1.41, for *n*= 8) Consistency Ratio (*CR*, .091) was calculated as

$$CR = \left(\frac{CI}{RIV} \right) * 100$$

Estimated Consistency Ratio (*CR*= .091; < .01) suggested that respondents clearly understood the differences in choices presented & thus there was a satisfactory consistency level in respondents' judgment of relative importance of factors (Saaty, 1980).

ANCOVCA

To answer the research questions 2 & 3 related to effect of doctors' length of practice & doctors' patient volume on their response towards marketing activities (select factors understudy) while controlling the effect of doctors' specialization, an ANCOVA analysis was conducted using composite scores of factors. The covariate was included in the analysis to control for the differences on the independent variable.

First, Length of practice was taken as dependent variable and specialization of doctor as covariate. Preliminary analysis of interaction suggests that interaction is not significant; $F = .645$, $p = .587$, so further analysis was done. Results of ANCOVA suggested significant influence of length of practice on doctors' response towards marketing factors when effect of doctors' specialization is controlled; as evidenced by $F = 41.12$, $p < .05$.

Same process was conducted for doctors' patient volume as independent variable. Results of ANCOVA suggested significant influence of patient volume on doctors' response towards marketing factors when effect of doctors' specialization is controlled; as evidenced by $F = 32.42$, $p < .01$.

Discussions and implications

AHP suggested availability of a brand to be most influencing marketing factor for the doctors. Reason could be that now a days doctors are attending patients from broad territories and across cities so they would be inclined to prescribe brands which as easily available across places. Pharma companies must insure that the brands being promoted are available easily across the medical stores and across places.

Further, relationship marketing was another significant factor influencing prescription generation. Even focus group findings also suggested that activities like greeting on birthdays, Anniversaries etc. influence doctors' prescription behaviour.

Sampling efforts seems to have great potential for favourable prescription generation. So, Pharma companies should use sampling as prescription generation tool by managing cost-value trade off (as sampling has usually high cost associated for the company).

Visits to a particular doctor should be carefully scheduled to ensure regularity as suggested by survey findings. Further, there should be with proper gaps between 2 visits as focus group suggested that doctors generally discourage frequent visits. This case is especially true for doctors with longer medical practice.

In focus group many respondents expressed that they consider medical representatives an important source of information on pharmaceutical brands. Further, survey findings also suggested medical representatives' knowledge (but not their personality) has reasonable influence prescription behaviour. In that way, Pharma companies should invest substantially in proper training of medical representatives. Companies should also motivate medical representatives to be prepared thoroughly for in-chamber-detailing.

Surprisingly, influence of symposium/seminars & literature/journals/updates is almost non-existing on doctors' prescription behaviour. Reason could be that in today's IT era information is just click away offering copious sources of detailed information. That's why marketers should use such marketing tools mainly for informative/educational purpose rather than as active prescription generation tool.

At last, lengths of practice & patient volume have significant influence on doctors' perception towards marketing factors.

Conclusion

There are multiple factors pertaining to marketing field, which influence doctors' prescription behaviour, and interaction of these multiple factors is very complex. Marketers must understand these relevant marketing factors viz. availability of brand, relationship marketing, sampling, regular visits, medical representatives' knowledge & personality and their relative importance perceived by the doctors in prescription decision-making. Especially, marketers should focus on improving brand availability to gain competitive advantage. Further, marketers should manoeuvre their marketing tactics & efforts at macro-level depending on specialization of doctor, length of practice and volume of patients attended in order to enjoy favourable prescription generation.

Limitations

First limitation of the study lies in questionnaire administration. The use of self-reports to collect data from doctors may lead to the common method variance, a situation where true associations between variables are inflated specially in case of socially desirable behaviour. Same could be an issue in the current study.

Secondly, some possibly relevant marketing factors for example incentives, image of the company were left out in the study.

Scope for further research

First, future research could study the relevant marketing factors using an experimental design. Such study could involve manipulation of factors like sampling, no. of visits per month, offering literatures/updates in a case-control setting. And, subsequently measure impact of such factors in-terms of actual prescription behaviour of doctors leading to more reliable findings.

Second, a future extension of this study can include the perception of the pharma marketers (sales managers & brand managers) on the same factors and then suggestions can be made to marketers on the basis of any difference found in the opinions & perceptions of the marketers and the doctors.

Third, future study could incorporate some more marketing factors like incentives, gifts, image of company, corporate communication etc. for studying prescription behaviour.

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Managerial Challenges in Investment Market Research

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Abstract

Since 1860 the investment community benefited by the first structured approach regarding the ocean of data which every potential money supplier was flooded with. It was Henry Poor who led the new investment way and, later, was followed by noble successors like John Moody, Benjamin Graham, David Dodd or John Burr Williams. They founded what today is called the fundamental analysis. The continuous increase of the turbulence and complexity of the environment confronting global, regional or local investors enhanced the need for a better managerial approach within the investment process. This was John Murphy's mastermind work of synthesis, the intermarket analysis. The essence of this managerial approach is to profit the most from the global market relationships between equities market, forex market, commodities market and credit market. Studying the interaction among these markets and deciding accordingly the in and out positions on different financial instruments paid far better than strategies such as the naive „*buy and hold*” or the manipulative „*buy on rumours - sell on news*”.

Keywords: fundamental analysis, intermarket analysis, equities market, forex market, commodities market, credit market.

Introduction

Since 1860 the investment community benefited by the first structured approach regarding the ocean of data which every potential

money supplier was flooded with. It was Henry Poor who led the new investment way and, later, was followed by noble successors like John Moody, Benjamin Graham, David Dodd or John Burr Williams. They founded what today is called the fundamental analysis.

From a managerial perspective, fundamental analysis brings order to the chaos of economic and financial data regarding industries, sectors or companies which seem attractive to equity investors. Basically, there are two popular approaches to this topic: top-down and bottom – up, the first being favoured by the statistics of success.



The quality of cascade forecasts depends also by the analysis of independent / dependent type variables. The fundamental analyses wanted end consists in identifying the misprices of different securities and so, allowing the users to profit from intelligent trades directed to undervalued (buy/long positions) or overvalued (sell/short positions) stocks.

Fundamental analysis – literature review

Henry Varnum Poor was, no doubt, the pioneer of the structured approach to the processed data (read information) useful to equity investors by publishing, in early 1860, of the legendary “*History of Railroads and Canals of the United States*”. He was no less than the founder of H.V. & H.W. Poor Co (1868), well known later, in 1941, as Standard & Poor’s.

Stepping with no hesitancy on the brilliant path opened by Poor, another American financial analyst, John Moody, edited through its company, in 1900 the “*Moody's Manual of Industrial and Miscellaneous Securities*”. The volume contained unprized knowledge on stocks and bonds issued by financial institutions, authorities,

industry, mining, utilities or food sector. Today, Moody's Corporation is one of the three elite rating world agencies.

While American economy escaped the Great Recession, Benjamin Graham (Warren Buffett's future mentor) and David Dodd published in 1934 "*Security Analysis*", an amazing book about the market research preparing the investment decision, bestseller turned eventually in fundamental analysis bible for the analysts all over the world.

John Burr Williams is writing in 1938 a classical book, "*The Theory of Investment Value*", where is presenting different mathematic models on intrinsic value of stocks, yet admitting the first shot on this theme to Robert F. Wiese, in his 1930 work "*Investing for True Values*".

The American Geoffrey H. Moore continued and developed the business cycles theory of Wesley C. Mitchell and Arthur F. Burns, and become for more than 50 years a true semi-official wizard of precisely timing the ins and outs of recession periods. Moore also was one of the teachers and inspiring models for Alan Greenspan, the renowned chief of Federal Reserve (FED).

Appraisers benefited by an unexpected help outside their specialised community, from the highly praised American professor Michael Porter, which in 1985 promoted the concept of "*value chain*", based on the "*business system*" model established by McKinsey Company in 1980.

In fact, within the 2003 edition of European Valuation Standards, in GN7 there is a direct path towards Porter's value chain concept, and, it's Industry analysis model based on the 5 competitive forces is largely applied by appraisers.

The top – down approach, starting from macro level, sector and industry level, followed by company and financial statements analysis, is the usual path followed by the majority of study models, including the OECD manuals, out of which "*Understanding Economic Growth Macro-level Industry-level Firm-level*"

Another institution preoccupied by developing the prediction instruments in investment analysis was The Central European Bank, which published among other volumes, the work "*The Yield Curve as a Predictor and Emerging Economies*", signed by Arnauld Mehl, the principal economist in the International Directorate of the bank.

Intermarket analysis

The continuous increase of the turbulence and complexity of the environment confronting global, regional or local investors enhanced the need for a better managerial approach within the investment process.

Louis B. Mendelsohn was among the firsts pioneers of what was later called the intermarket analysis. Even in the early 1979 he managed to combine intermarket principles with neural-network based software designed to investigate global financial markets. Later he developed the praised *VantagePoint Intermarket Analysis Software*, which even today gives forecasts with nearly 80% accuracy on more than 600 markets.

But the markets needed something more, and this was the mastermind work of synthesis concerning intermarket analysis performed by John Murphy. The year of the launching of his acclaimed book "*Intermarket Technical Analysis: Trading Strategies for the Global Stock, Bond, Commodity, and Currency Markets*" was 1990. The volume illustrated the major concept that markets are interrelated and those that really counts and must be analysed are: variable income (equities or stocks), fixed income instruments (like bonds), commodities (like oil or wheat), forex (like Euro/USD or USD/Japan Yen).

The essence of this managerial approach is to profit the most from the global market relationships between equities market, forex market, commodities market and credit market. Studying the interaction among these markets and deciding accordingly the ins and outs positions on different financial instruments paid far better than strategies such as the naive „*buy and hold*” or the manipulative „*buy on rumours - sell on news*”.

The theoretical model needed for the interpretation of the correlations between equity markets (virtual of financial economy), business cycles (real economy) and the main sectors and industries was presented by Sam Stovall in "*S&P's Guide to Sector Rotation*". As different industries behave different accordingly to their position during business and virtual cycles, this particular knowledge allows investors to take long positions in the right industries at the right moments.

The main principles of Intermarket analysis are gathered in the Table below:

Fixed income instruments = the leading market; a decrease in fixed income value = lowering sign for variable income as the fixed income yields are rising	If commodities index↑ then inflation↑ If commodities index↓ this could lead to deflation	Gold = leading indicator for commodities
Variable income market = led by fixed income depending on interest rates, Automotive & Financial Services industries	Commodities index → same direction as fixed income yields and contrarian to fixed income values	Gold & oil influence inflation rate
Variable income = leading indicator for economic cycles; its major trend changes anticipate 6 to 9 months early a new recession period or a possible exit from recession	During deflation periods, fixed income↑ & variable income↓	Gold & commodities index = contrarian to USD
Bull market in variable income instruments (equities) anticipates economic growth Bear market in equities anticipates recession	Weakening USD = favours American corporations	Strengthening of the USD = inflation↑ in USA USD weakening favours fixed income and American variable income

Either if the know-how exists, management must deal with qualified analysts' issue. Large financial sharks, like pension funds, rating agencies, investment banks, investment funds and so on concentrate the most (and the best) of the analysts, the so called 'cream'. The rest of the industry takes what is left and must solve the complicated problem of the continuous training.

Usual specializations go from fixed and variable income to commodities or forex, but could also cover specific areas, like industry analysts (in ex cyclic, non-cyclic, energy...), geo-economic areas with

homogenous characteristics, like BRIC¹, or new fashion packages, like SAAAME², that can tell new fairy tales to the undecided investors.

This issue was not properly solved not even by the big players, since even the ‘*dark bankers*’ from JP Morgan were heavily damaged, let’s say by some 2 billion pounds, by a couple of trades signed Bruno Iksil, the mythical broker nicknamed ‘*the London whale*’. Another financial mini-giant, Societe Generale, had to face an even bigger loss, counting around 5 billion euros, vanished during some controversial derivative trading executed by one of their traders, Jérôme Kervier.

View the targeted risk comprised in the tailored strategy of the investment fund or bank, the decisive aim of the management is to optimise the profits cashed from the financial instruments portfolio. The suitable technique would be a continuous balance between asset classes and specific securities resulting in the delivery of reliable investment recommendations, like taking a long or short position vis-à-vis some title.

The positioning of the Valuation Standards

European Valuation Standards, Fifth Edition, 2003, Business Valuation GN7 specified that “*The appraiser must identify: the value chain, the critical factors of the business that secure the business success.*” Other requests for appraisers comprise: economy and industry analysis, industry rate assessment, including the mature development stage, Porter model on company’s competitiveness, based on sequential business McKinsey, identifying the competitive advantages originated from differentiation or from the cost leadership position on different business lines.

International Valuation Standards, Ninth Edition, 2011, IVS 200 Businesses and Business Interests, reexamine the indications contented within the GN 6 2003/2007 Editions that are: “*The economic outlook that may affect the subject business, including political outlook and government policy. Matters such as exchange rates, inflation and interest rates may affect businesses that operate in different sectors of the economy quite differently.*

In estimating the appropriate rate, the Valuer should consider such factors as the level of interest rates, rates of return expected by

¹ Brazil, Russia, India and China

² South America, Africa, Asia and Middle-East, the new acronym for fast growing ex-emergent markets.

investors on similar investments, and the risk inherent in the anticipated benefit stream.”

We conclude underlining the complexity of best appraisal practices' collection, that are valuation standards, and that direct the valuer towards a complex work of analysing any relevant markets that can influence the subject business, such as equities & credit, industries, policies and so on. The best managerial approach would be then to enforce the usage of adequate valuation standards.

Conclusions

The globalization of the investment process and the full and immediate access of investors to complex and diversified financial instruments ended in major complications in investment analysis. Such enquiry cannot be considered fully completed if neglects even one of the next three inquiries: fundamental analysis, technical analysis or intermarket analysis.

The investment universe has become so vast that it imposes a deep specialization of the analysts / appraisers, doubled by continuous specific training regarding the data gathering, processing it in useful information and interpreting this ultimate intelligence in order to better support the investment decisions.

From a managerial perspective, the success of investment process is also depending upon a disciplined approach, using adequate models and personnel experienced and competent. From an occult reading such Bulgakov's masterpiece - *The Master and Margarita*, and quoting Mr. Gh. Piperea, we can see that *'if money means trust, and trust is a feeling, then money are feelings, emotions'* (?) or in other words, the real *'alchemist gold'* would be in fact, the trust in financial industry, ultimately in the person of the money manager.

If there is such thing as trust, then the client gives willingly his or hers money to the professionals of investment industry. As expectations are high from the buyers of such illusions, we state here that an investment process must at least follow the next steps in case of a possible exposure to a listed financial instrument:

- Macro analysis to identify basic economic facts, able to influence an asset class, such as sovereign debt risk in European Union;
- In-depth analysis of all equities / credit / commodities / forex markets with the purpose to identify possible correlations able to affect either the targeted issuer or the targeted financial instrument;

- Analysis of industries related to the issuers' activity, one of the favoured approaches being the one with the value chain, respectively following the value added process (upstream → downstream), or basic suppliers → producers chain → end consumers & buyers.

- Business analysis: current status, perspective, comparative analysis with businesses similar and relevant, the sustainability in realising profits and to pay dividends or increase shareholders value, intangible assets and so on.

- Financial statements analysis: balance sheet, profit & loss account, cash flow statement, board members reports to shareholders and so on.

- Specific risks analysis:

The risk inherent to the anticipated revenues flow,

- >Credit risk (counterparty risk, debt risk, quality and liquidity of collaterals)

- Bankruptcy risk;

- Sensitivity analysis, eventually Monte-Carlo simulations.

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Impact of Changes in Methods of Teaching and Learning Accounting

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Abstract

The present study will bring into discussion possible ways of changing the approach of teaching and learning in the current developing academic environment on a case of 1st year students. We are examining the appropriate ways of adapting and improving the teaching accounting methodology. This need for change emerges from several of reasons, among which:

- increased demand of students, which are more involved and participative in classes;
- changed methods of teaching;
- changed educational circumstances and a more competitive environment for teachers;
- increased amount of resources and materials available for teachers and students.

Keywords: teaching accounting, teaching methods, cognitive skills, critical thinking skills, the role of the teacher

Introduction

Teachers usually create their own roles within the classroom, based on their theories and philosophies of teaching and learning, as well as on the kind of classroom interaction. Teaching techniques depend on specific situations and respond to the learners' needs.

The new approach of teaching and learning in accounting fits in the framework of changes in education, where students are more

demanding, knowledge and research are dynamic. The overarching objective was always and continues to be the motivating and challenge of students, to learn by engaging their intelligence, imagination and knowledge in solving the tasks and in participating in pair and group activities.

We focus our research on planning decisions, after a process of reflection, during which the teacher has to consider questions such as the following:

- What do I want my students to learn from this lesson?
- Why should I teach this lesson?
- What activities will be included in the lesson?
- How much time will I need for each activity?
- What methods will be applied?
- What grouping arrangements will I use?

Material and methods

In this paper, we start by presenting the motivation and theoretical background driving our research effort. Based on the current approaches specific for an academic environment, our research presents and analyses a range of teaching methods and techniques which can maximise students learning during the classes. In order to serve this purpose, a review of relevant literature is carried out, with a focus on interactive methods, such as: role-plays, critical thinking skills, brainstorming, jigsaw activities, fish-bowl activities, pyramid discussions, group work and pair work and others. New methodological approaches for teaching and learning, as discussed by various authors, are highlighted taking into consideration their relevance for our own teaching/learning context in a Higher Education environment.

The methods brought into discussion and exemplified in this paper are being applied to classes. They are mainly based on participative activities of groups and pair work. A new approach in action, consisting in several methods referring to cognitive skills: reading, writing, role-plays, debates and discussions, as proposed by Sherrington (2005), along with critical thinking skills as presented by Facione (1990), are applied on the particular case of teaching and learning "The Basics of Accounting" in the Academy of Economic Studies in Bucharest.

Literature review

The consulted studies focus on the role of teachers in the process of learning and interactive learning methods. Richards and Lockhart (1994) indicate the following roles of teachers:

- *Planner*, when the teacher sees planning and structuring of learning activities as fundamental for the success in teaching and learning;

- *Manager*, when the teacher's role is to organize and manage the classroom environment and the student's behaviour, in a way that will maximize learning;

- *Quality controller*, when a central task for the teacher is to maintain the quality of applying theories in the classroom;

- *Group organizer*, when the teacher's role is to develop an environment in which students work cooperatively on group tasks;

- *Facilitator*, when the teacher's role is to help students discover their own ways of learning and to work independently;

- *Motivator*, when the teacher seeks to improve students' confidence and interest in learning and build a classroom climate that will motivate students;

- *Empowerer* if the teacher tries to take as little control or direction over the lesson as possible and let the students make decisions about what they want to learn and how they want to learn it;

- *Team member* – the teacher and all the students in the class constitute a team and should interact like the members of a team.

These roles are better highlighted in terms of quality of teaching. The quality of teaching is the most important factor that influences student learning. Nevertheless, teacher education plays an important role in shaping quality teaching, as shown by Wang, Odell, Klecka1, Spalding and Lin (2010).

A whole range of studies about the new methods of teaching are available. In one of his researches, Sherrington (2005) presents the new methodology in action, consisting in several methods referring to cognitive skills: reading, writing, role-plays, debates, and discussions. Besides briefly describing them, we shall add critical thinking skills, as presented by Facione (1990).

A. Reading

Reading is seen as a skill that involves predicting, guessing, checking and developing one's power of anticipating and making sense of a text starting from the very title of the topic. By doing the reading tasks, students will stimulate the skills we use in real life, such as skimming the text for general meaning, scanning for specific information, intensive and extensive reading in order to understand the full message. These will influence the following subskills (Sherrington, 2005):

- understanding explicit and implicit information;
- recognising and interpreting the text structure, function and organisation;
- identifying the main ideas as a support for summarising;
- selective extraction of relevant points from a text and rejecting irrelevant information;
- comparing documents and transferring information to other forms of texts;
- evaluating a text by focusing on the writer's intention or attitude;
- reference skills: understanding and use of graphic presentation, such as subheadings, numbering, bold print etc.

B. Writing skills - going beyond writing tasks

The tasks involving writing skills include taking notes, solving problems of registering and writing short accounts on different topics as well as longer essay. The most common writing activity is registering in accounts, when students combine reading, writing and critical thinking skills, as well as the ground knowledge they might have acquired during the lesson. The writing tasks have an important communicative function, because what students write serves as an input for a subsequent activity (oral presentation, discussion) and they work, usually, in pairs or small groups. All types of interaction are encouraged: pair work, group work, class discussions, which provide a forum for peer feedback. Students can benefit more from working in a class by exchanging ideas and learning from each other, than by just sitting attentively and listening to the teacher, trying to absorb the knowledge given to them (Sherrington, 2005).

Writing activities go together with those for reading, because there are activities where students are asked to read texts and write

down the map of an argument. In this way, students develop critical thinking skills and the skills needed to organise their ideas, develop their argument by identifying premises, objections, reasons to reasons, reasons to objections, objections to reasons and objections to objections.

C. Role-plays

Out of the speaking tasks, role-plays are the most complex. The teacher must explain the situation and the instructions perfectly clearly. Students should be grouped by roles. At the end of the activity, the teacher should lead a follow-up discussion, asking the students to evaluate their performance and suggest alterations to the way the role-play can be conducted to a better effect from their own point of view. This enables students to step outside their roles and discuss how they have benefited from the activity.

Argyle (2002), cited by Pheny and Shun (2009), noted that case studies have long been used in teaching. Sharing the same opinion, Jakson (2004) stated that case methods of teaching are common in business education programs worldwide. "Case" is, as defined in Windsor and Greanis (1983) and quoted in Argyle's paper, "a 'typical' true-to-life management situation or policy issue presented as a mystery or dilemma compounded of multiple dimensions". Argyle makes the point that in analyzing case studies, students have to think purposefully and demonstrate their knowledge of the subject. This will promote deeper learning and also provide invaluable and timely feedback to teachers (Pheny and Shun, 2009).

Jakson (2004) points out that the case-based approach can pose unique challenges in bilingual contexts, especially if students are more familiar with the transmission modes of learning

D. Discussions and debates

Discussions and debates aim to develop critical thinking and interactive skills. They offer opportunities to exchange views and ideas, to examine their own thinking and opinions, to give structure to their arguments and present them convincingly, to evaluate their colleagues' opinions and respond appropriately (Sherrington, 2005).

Sherrington (2005) describes a number of forms of discussions, such as:

Brainstorming. Either as a full class, or in small groups, students are asked to identify any terms, issues, questions that spring to mind on

a particular topic. Brainstorming is a useful way to the tutor to gauge the level of understanding gained from reading in advance of the session, to identify issues that the students are unclear about. It is also a useful confident building exercise as it demonstrates to students that they do have some knowledge on a given topic.

Jigsaw activity. This involves dividing students into groups, according to the number of issues discussed under one subject. Each group explores one area, and then reports back to the class. This activity allows students to focus upon one topic, but then to share their work with their peers. It is a useful technique to employ if there are a variety of issues that need to be examined under broad parameters of a question or topic.

Fishbowl activity. Students are divided into groups, generally working on similar topics or issues and then reporting back to the class. This activity is used for highlighting the different perspectives that can be taken on a given topic.

Pyramid discussion. Is a technique that works with simple problem-based discussion. It gives students time to rehearse their arguments in small groups before they face the whole class. It starts with individual reflection followed by discussion in pairs. When the pairs have reached some agreements, two pairs combine to make fours and they again need to reach an agreement. At this point, they join with another four or with all the other students.

E. Critical thinking skills

Facione (1990) describes and explains the following critical thinking skills: analysis, interpretation, evaluation, inference, explanation and self-regulation.

Analysis means “to identify the intended and actual inferential relationships among statements, questions, concepts, descriptions, or other forms of representation intended to express belief, judgment, experiences, reasons, information or opinions”. The experts include examining ideas, detecting arguments, analyzing arguments as sub-skills of analysis.

Interpretation is to comprehend and express the meaning or significance of a wide variety of experiences, situations, data, events, judgments, conventions, beliefs, rules, procedures or criteria. Interpretation includes the sub-skills of categorization, decoding significance and clarifying meaning.

Evaluation is “to assess the credibility of statements or other representations which are accounts or descriptions of a person’s perception, experience, situation, judgment, belief or opinion and to assess the logical strength of the actual or intended inferential relationships among statements, descriptions, questions or other forms of representation”.

Inference means “to identify and secure elements needed to draw reasonable conclusions; to form conjectures and hypotheses; to consider relevant information and to educe the consequences flowing from data, statements, principles, evidence, judgments, beliefs, opinions, concepts, descriptions, questions or other forms of representation”. As sub-skills of inference the experts list querying evidence, conjecturing alternatives and drawing conclusions.

Explanation means being able to present in a cogent and coherent way the results of one’s reasoning. This means to be able to give someone a full look at the big picture: both “to state and to justify that reasoning in terms of the evidential, conceptual, methodological, criterion and contextual considerations upon which one’s results were based and to present one’s reasoning in the form of cogent arguments”. The sub-skills under explanation are describing methods and results, justifying procedures, proposing and defending with good reasons one’s causal and conceptual explanations of events or points of view, and presenting full and well-reasoned, arguments in the context of seeking the best understandings possible.

Self-regulation means “self-consciously to monitor one’s cognitive activities, the elements used in those activities and the results educed, particularly by applying skills in analysis and evaluation to one’s own inferential judgments with a view toward questioning, confirming, validating, or correcting either one’s reasoning or one’s results”. The two sub-skills here are self-examination and self-correction.

In the new approach of teaching and learning, we will develop specific activities where students may use all these critical thinking skills. Besides cognitive skills, in the following we looked at patterns of interaction, as they are particularly relevant for the new approach of teaching and learning accounting.

i. Whole class teaching or plenary lecture

Sherington (2005) describes plenary lecture as being used when the teacher leads the whole class through a learning task. The teacher typically begins a lesson by reviewing prerequisite material, then introduces and develops new concepts or skills, usually through lecturing. Critics of whole-class teaching have pointed out a number of disadvantages, like: such instructions is teacher-dominated, with little opportunity for active student participation, teacher tend to interact with only a small number of students in the class etc.

ii. Individual work

Individual work means that each student in the class works individually on a task without interacting with peers or without public interaction with the teacher. It includes such activities as completing worksheets, doing exercises. But, again, it has disadvantages related to providing little opportunity for interaction, both with the teacher and with other students.

iii. Pair work

Pair work involves students working in pairs to complete a task. Through interacting with other students in pairs or groups, students have the opportunity to use their knowledge in a no threatening situation in order to complete different tasks.

iv. Group work

Group work involves students work in groups on learning tasks. The use of group work activities is a frequently cited strategy for changing the interaction dynamics of classroom. In addition to the benefits of pair work activities, group work has a number of specific advantages (Richards and Lockhart, 1994):

- it reduces the dominance of the teacher over the class;
- it increases the amount of student participation in the class;
- it increases the opportunities for individual students to practice and use new knowledge;
- it promotes collaboration among learners;
- it enables the teacher to work more as a facilitator and consultant;
- it can give learners a more active role in learning.

Group work encourages broader skills of cooperation and negotiation, while being more private than work in front of the whole class. It promotes learning autonomy by allowing students to make their own decisions in the group

Gilbert, J.E., Swanier, C.A. (2008) point out that learning styles theory indicates that people have different approaches of learning and studying. Advancing this theory, Felder and Silverman (1988) underline the fact that people with different learning styles process information differently, leading them to orient towards particular subjects, modes of presentation and teaching styles. Therefore, teaching methods also vary, leading to a real challenge for teachers.

Results and discussion

The methodology based on cognitive skills and patterns of interaction was applied in teaching "Basics of Accounting" seminars to the 1st year students of the Academy of Economic Studies. We were fully aware of the importance of interactive methods in the new approach, including group work, team work, debates and others. There is a wide range of activities that aim to challenge the students intellectually and to give them a ground for debate. In this way, the focus is put on developing cognitive and communication skills. As a result of applying the methods referring to cognitive skills: reading, writing, role-plays, debates, discussions and those regarding critical thinking skills, the key findings include:

Reading: Reading tasks are usually related to debates. Students were asked to read some material in advance or in class and then they are required to express their opinions in debates or in writing.

Writing: This skill is often used in accounting, mostly for calculation and registering in accounts. It is also used by students in solving different exercises and more complex tasks implying other skills as evaluation, analysing, inference. For instance, in the example below students were asked to fill in the gaps after they make some calculation. This task requires knowledge learnt before, besides simple mathematical calculation.

In other exercises, besides writing skills, students need to draw conclusions of what they have learnt before, to evaluate concepts. Therefore, critical thinking skills of *evaluation and inference* are needed.

This kind of exercise is apparently a very easy one, but it is very important for students to understand exactly in which category they have to arrange the items (assets, liabilities and owners equity). Recording the transactions in accounts is one of the most popular writing activities in accounting.

Experience has confirmed so far that students are very receptive in terms of applications, because they can better understand the theoretical aspects, they are really eager for more practical problems.

Role-plays: Students were asked to act as bookkeepers. Role-plays are important in accounting, because they enable students to act as close as possible as in real life. We also used to work in teams, in order to take a practical example, so every team represents a company, such as a bakery, a pastry cook shop, a donuts shop. Each team basically created their own activities. Monitoring these activities on a regular basis, we could notice that this is a good exercise for them to work in teams, since students do not usually come with prior notions or experience of team-work, which is absolutely necessary for their future career. Therefore, these types of activities have the extra benefit of helping students to develop team-work skills.

Discussions and debates: Students were asked to discuss the principles of accounting. This activity can be done as a group work; therefore, it will be exemplified under "Patterns of interaction".

Critical thinking skills: Students use critical thinking skills when learning new concepts or theories. Teachers should identify and use activities that enable students to use these skills, in order to a better understanding and to apply knowledge. **Analysis:** students were asked to analyse texts for identifying the relationships among statements, questions, concepts, descriptions, or other forms of representation intended to express belief, judgment, experiences, reasons, information or opinions. One useful technique of analysis is mapping out the argument. **Interpretation,** as a critical thinking skill, is used in different exercises, for example, the sub-skill of *categorisation* is exemplified below. Students were asked to link the terms "accounting" and "bookkeeping" to their appropriate explanations presented in paragraphs (a) and b), for example). For this task, students assessed the logical strength of inferential relationships among statements and descriptions meaning that, besides *interpretation*, critical thinking as skill of *evaluation* is needed. **Evaluation:** after explaining and defining concepts, the students were asked to draw conclusions, assessing the credibility of teacher's statements.

Besides *evaluation*, this activity implies *interpretation* skills, mostly the sub-skill of *categorisation*.

Inference is used for drawing reasonable conclusions considering relevant information given in advance flowing from data,

statements, principles, evidence, judgments, beliefs, opinions, concepts, descriptions etc. As sub-skills of inference, drawing conclusions is the most used. Students were asked to identify the objectives of bookkeeping, after discussing its definition, role and methods. The main question arising is “Why is bookkeeping useful for?” After group-discussions, the response to this question is presented. The method used is known as *learning through discovery*.

Explanation

Explanation is usually needed in teachers’ lecture. But sometimes, students could be asked to explain the elements of the theory. This is a mean of checking whether students have understood the concepts of the teachers’ explanations.

Patterns of interaction

Whole class teaching or plenary lecture

Plenary lecture remains the most popular method of teaching. It is used for explaining concepts and theories. Usually, plenary lecture is followed by other activities, such as solving exercises, debates, group work activities etc. Besides explaining concepts, we also introduce schemes or equations for maintaining students’ interests during plenary lecture. In our case, schemes may be written on the table during plenary lecture. Although the plenary lecture is not so „modern”, it is useful to present the theoretical aspects. But to understand better the theoretical part, the practical problems are needed. Usually, we require students to help with filling in the scheme, asking them different questions related to the accounting equation.

Individual work

Individual work is used as homework, because, whenever possible, activities in class are recommended to be done in pairs or groups, for involving students to interact to each other. Individual work is also very important for the students, in order to work at home, to prepare for the next class and to consolidate knowledge of the things they learned and to become familiar with applying them. Even if at the beginning they are not very pleased having homework, after a while the results can be seen and they are mostly positive.

Pair work

Working in pairs, students can be given the opportunity to use their knowledge in a no threatening situation and use it to complete different tasks. Activities in pairs are developed in class. They are rarely

done as homework, but we tried to give them homework in pairs and the result was a very satisfactory one.

Group work

Activities involving group work are useful for engaging students in debates. The activity involves reading skills and critical thinking skills: analysis, interpretation, evaluation. As an example, students were divided in groups of 4 or 5 persons. Each group was asked to draw conclusions about transparency in financial statements, giving reasons in support of what they claim and why not using the examples of the companies that they created on their own. Groups may have different and interesting opinions. They could bring objections to other groups' conclusions.

Other methods

We can use other methods for involving students in the process of learning. They refer to: quick questions, solving exercises, registering in accounts etc. We usually use this kind of quick questions at the end of the class as a short test, in order to check their attention during the lesson.

Conclusion

Concentrating our discussions, we consider that the main features of the new approach of teaching and learning include:

- Participatory teaching and learning. Students are actively involved in the learning process. They are invited to express their opinions and to ask questions during the teacher's explanations;
- As a result of the above mentioned feature, the interaction teacher-student will increase;
- The students are asked in advance about their learning needs. As a result, the classes will be prepared taking into account the needs of students;
- During classes, diverse patterns of interaction are developed by the teacher: pair and group work.

The activities presented in this paper are suitable for any courses of accounting and can be use by many professors in their efforts of improving the interactions teacher-student and student-student. The new methods are based as much as possible on pair or group work, games, projects. Plenary lecture or whole class learning remains the main method of transferring knowledge to students in large classes. Even so,

during a session, teachers may stop the explanations and do exercises related to what they explain.

Another conclusion is that students must be trained how to learn. They want to be taught in a modern way, without writing down all the information provided by the teacher in a plenary lecture, but they do not know what a modern way implies, because the statement related to the group activities has a small average mark and group activities belong to a modern approach of learning. The explanation may be the fact that they are less used to contribute to debates in seminars for which they are supposed to work in small groups. Solving exercises is the most common activity in classical seminars. This leads us to the conclusion that students must be taught to start identifying their own methods of learning and then trained to apply them.

It is recommended that in the new approach of teaching and learning, activities must be focused on pair work and group work learning, rather than on the individual one. Teachers should encourage students to think and to express their opinions. For enabling communication, teacher should create a friendly environment where no one is judged for the ideas expressed. Based on this, the teachers' role has changed. They act like a team member and facilitator, helping students to discover themselves their own methods of learning and encouraging them to work in groups.

These conclusions have significant implications for the work of teachers in their efforts of planning the classes. Teachers must consider students' interests and needs in designing their methods and materials. Among the roles described in the literature, we consider that the teacher's roles in the new approach of teaching and learning should be: manager, group organizer, facilitator, motivator and empowerer.

The research may be useful also for other teachers in their efforts of preparing and teaching their classes. It could be considered as a pattern of participatory learning that could be transferred to other subjects as well.

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Empirical decomposition of the financial liberalization effects: Crisis versus Economic Growth

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Abstract

This paper aims to present an empirical decomposition of the financial liberalization effects on economic growth and on the incidence of monetary and banking crises. Our study presents the direct effect of financial liberalization on growth by using a dynamic panel model and multivariate probit model of ten emergent countries during 1975-2009 by using macroeconomic and financial variables. This article consists to discuss the direct effect of financial liberalization on the growth, like their indirect effect in terms of the additional costs of the crisis. It confirms the results of previous studies that show the positive total effect of financial liberalization on economic growth.

Surprisingly, we conclude that the direct effect growth is superior compared of indirect effect crisis in our sample.

Keywords: financial liberalization, economic growth, financial and banking crisis, dynamic panel data, Probit model.

Introduction

There are two opposing views about the effects of financial liberalization. A first view, considering the financial liberalization as a means to strengthen the financial development and contributes to sustainable and

high growth. In a second view, liberalization leads to excessive risk-taking, increases macroeconomic volatility and leads to more frequent crises.

In this paper we propose an empirical framework that combines these two views. We decompose the impact of financial liberalization on the real economy in two effects: a direct positive effect on economic growth and a negative indirect effect on currency and banking crises. We note that the gain direct financial liberalization on growth is higher significant higher than the loss of growth in banking and currency crises. Really, the financial liberalization effect on economic growth is important: to increase about 1% of annual growth rate per capita.

The effect of financial liberalization on growth and its impact on financial fragility and the twin crises have been studied extensively in separate of the empirical literature. The literature financial crisis examines the relationship between financial liberalization and the risk of financial crises. Kaminsky and Reinhart (1998), Detragiache and Demirguc-Kunt (1998), show that, the number of banking and currency crises increases, after financial liberalization.

However, liberalization and growth literature focuses on effects of liberalization on the long term growth. For example, Bekaert, Harvey and Lundblad (2005) found that the liberalization of transactions led to an increase of 1% of GDP. Henry (2000) confirmed this result in business by showing that financial liberalization leads to a boom of investment in a decline in the cost of capital.

The objective of this paper is not to make another test of financial liberalization effect on growth. Our contribution is to develop an integrated empirical framework to measure and highlight the mixed effects of financial liberalization: First, financial liberalization tends to relax borrowing constraints, leading to higher investment and growth, second, it encourages risk-taking, a product of financial fragility and increases the probability of banking crises, which often have dangerous consequences too real activity.

We believe that the financial liberalization effect in a unified manner is important. The division of the empirical literature dealing with the financial liberalization between the analysis of crises and the effects of growth has several disadvantages. First, each field of investigation provides only a partial financial liberalization effect. The pessimistic approach highlights the severity of the financial crises costs, but largely neglects the benefits of growth during quiet periods.

The second disadvantage is that each field of analysis has produced its own set of implications and political or economic recommendations. Researchers emphasizing the effect of long term growth advocate of

financial liberalization policies, as researchers who focus on crisis warned against the total financial liberalization.

In the next section, we present the methodology of this study: our estimation methods, data sources, the econometric problems that arise and the results of our estimates. The third section is devoted to a theoretical presentation and discussion of our results. The last section concludes the study.

Financial liberalization, economic growth and twin crises. An theoretical and empirical overview

The empirical literature focusing to evaluate the impact of financial liberalization policies lead to review the content of their recommendations and conditions in which they positively affect economic growth.

In this framework, *Morisset J.* tried to test one of the basic assumptions of the paradigm of financial liberalization. For this reason, the center of its contribution is made by a structural model of investment in which he introduced the factors influencing the relationship between the real interest rate, the supply of domestic credit and private investment. Thus, the complexity of the *Morisset J.* model comes from the fact that it introduces multiple interactions that may better reflect the complexity of reality and the real impact of financial liberalization policies.

The principal results show that the increase in real interest rates does not necessarily have a positive effect on private investment. In addition, the positive effect of the increase in domestic credit, as suggested by *Mac Kinnon and Shaw*, may not take place due to the substitution of the acquisition of assets by the monetary and financial assets.

Regarding the impact of financial liberalization on the financing of the public sector requirement from the domestic banking system, it appears that these needs by increasing the limited available funds for the private sector.

Overall, the author concludes that the competent authorities must ensure three conditions to that the increase in real interest rates positively affect private investment.

The contribution of *Roubini N. and Sala-i-Martin X.* is, like *Morisset J.*, to attempt the empirically test of financial liberalization assumptions. Both authors have developed a model of financial

repression, financial inflation and endogenous growth to detect the impact of the financial liberalization policies on growth and other variables. The data cover 60 countries at period of 1960 to 1985.

Thus, the results of these two authors show that countries that repress their financial systems tend to grow faster than the others.

In *Khan A. and Hasan L.*, the original thesis of Mc Kinnon and Shaw is that interest rates low or negative discourage savings and reduce the loanable funds available for investment which affects negatively the economic growth rate. In this framework, financial liberalization policies induce an increase in the level of investment in two ways. The first result of the increased volume of domestic credit available following the increase in savings intermediated stimulated by encouraging earnings reflected by high interest rates. The second way is through the effect of leading *Mac Kinnon*. The latter states that because of the indivisibility of investment projects and the predominance of internal financing of projects, the creation of money balances is a prerequisite for the realization of such projects. This reasoning shows the positive relationship between the accumulation of cash money and the investment rate.

The work of *Khan A. and Hasan L.* deals the Pakistani case using data covering the period 1959-1995. The objective of the authors is to test the relationship of financial repression paradigm. For that, they were careful to study the properties of stochastic variables before testing the long-term relationship between the variables. After that, they considered a correction model error, if validated, to capture the dynamic relationships between the variables.

The tests show the existence of cointegration in favour of the hypothesis of complementarity Mc Kinnon.

Many empirical studies, on representative samples of countries showed that banking crises were usually preceded by financial liberalization policies. However, the process of financial liberalization in emerging countries explains a significant increase in the number of banking crises. In 1996, *Kaminsky and Reinhart* have conducted a study covering 20 countries (Asia, Latin America, Europe and the Middle East), over the period 1970-1995. Their main findings are:

* The banking crises were rare and don't have links with the account balance crises during the 1970s, when financial markets were controlled.

* Following the financial liberalization in the world, the number of banking crises has increased and most banking crises are preceded by financial liberalization policies.

* These authors estimate that in 18 of 25 banking crises that take place over the past two decades, the financial sector was liberalized in precedent five years.

More recently, *Demirguc-Kunt and Detragiache (1998)* have identified a relationship between financial liberalization and financial fragility in a study of 53 countries in the years 1980-1995, using a panel data approach. They conclude that banking crises are more likely to occur in liberalized financial systems. But financial liberalization has a low impact on the fragility of the banking sector when the institutional environment is strong and powerful (low corruption, respect for the rule legislation). In their results, it appears that financial liberalization must be accompanied by changes in the institutional framework if it is not to lead to increased financial instability source of negative economic growth.

Similarly, *L. Miotti Plihon and D. (2001)* have announced different forms of banking crises more or less severe. Two scenarios are selected by recent studies:

* The existence of a bank panic involving the closure by the public sector or by other financial institutions (for example: Argentina in 1980 and 1994, Thailand in 1983, Venezuela in 1993),

* In the absence of panic bank closure or merger of institutions in difficulty, and the implementation of plans for the rescue of banks on a large scale (for example: Denmark in 1987, Finland and Sweden in 1991, Mexico in 1992).

The first type of crisis has caused a problem of bank resources suddenly reduced by a failure of the applicants. The second type of crisis that is the most comes from difficulties in the banking assets whose quality is intensively deteriorating.

In *Ranciere, Tornell and Westermann (2003)*, financial liberalization extends the borrowing constraints and increase growth, but also generates systemic risk of occasional crises. In *Martin and Rey (2005)*, the stock market liberalization and financial frictions in asset markets act on each other to produce booms investment or financial crash.

Martin and Rey (2005) analyze the impact of stock market liberalization on capital flows, asset prices and investment. They show

that when there are transactions costs in international capital, the stock market liberalization may lead to two possible outcomes for an emerging economy. In normal events, running the liberalization of produce positive role of capital inflows, expansion diversification opportunities and lower the cost of capital, thus leading to a higher investment and growth. However, in certain circumstances pessimistic, liberalization led to a fall in the demand for assets capital, capital outflows and financial accidents related with low investment and low growth.

Allen F. (2005) develops a model where expansion of credit is a source of financial and banking instability. The introduction of financial liberalization policy leads to a continuous rise of asset prices and rapid expansion of credit. This price increase has led speculative bubble that could burst their cause banking crises.

In the models discussed above, financial liberalization reduces the impact of financial market imperfections, but increasing a cost of financial fragility. Therefore, the overall effect of financial liberalization on growth is ambiguous and depends on risk. A financially liberalized economy grows faster in normal times, but is exposed to disasters dangerous performance during financial crises. The direct effect of growth dominates under two conditions: First, financial liberalization should significantly reduce the financial and help firms to encourage investment. Second, the frequency of financial crises should be low enough for risk-taking sponge.

Financial liberalization, crises and growth: an empirical decomposition

Our object is to propose a methodology to decompose the financial liberalization effect in two channels: a direct channel of growth and an indirect channel of financial vulnerability.

The latter effect takes higher frequency of crises and associated costs with lower growth. The main advantage of this approach is that it allows us to quantitatively compare the expected benefits of financial liberalization to the growth costs from a greater financial vulnerability.

1. Empirical Specification

Our empirical consists to add a standard growth regression a financial liberalization variable and banking and currency crisis index. In then, we treat the twin crisis index as endogenous variable that depends on more variables, including financial liberalization. In this

situation, the impact of financial liberalization on the economy has two effects: (i) a direct effect on growth conditional on a standard set of control variables and the absence of the crisis, (ii) an indirect effect reflecting the growth cost was associated with a higher propensity to banking and currency crises.

Formally, the empirical specification combines a growth model and a crisis model. The growth model has the taking double indexation, individual and temporal, with i indexing the country and t index the time horizon:

$$Y_{i,t} = \alpha X_{i,t} + \beta IFL_{i,t} + \gamma Icrise_{i,t} + \varepsilon_{i,t}$$

With $Y_{i,t}$ is the per capita GDP growth rate, $X_{i,t}$ is a set of explanatory variables in the growth literature, $IFL_{i,t}$ is the financial liberalization index and $Icrise_{i,t}$ is the financial crisis index proxy taking 1 if the country i experienced a financial crisis in period t and zero otherwise, $\varepsilon_{i,t}$ is an error term.

It may suggest that there is an inverse relationship between the economic growth rate and financial crisis. Indeed, an economic growth best may also be due to banking and currency crisis, including by creating firms financial hardship.

The possibility of a both link between these two variables can biased the estimates coefficients. To resolve this problem, we consider a simultaneous equations model as follows:

We assume that the possibility of a banking and currency crisis is also determined by economic growth and a number of exogenous variables:

$$Icrise_{i,t} = \lambda X_{i,t} + \phi IFL_{i,t} + \psi Y_{i,t} + v_{i,t}$$

Thus, the existing empirical literature on financial liberalization has focused on the evaluation of the growth model using linear techniques, or the model evaluation crisis using probit specifications. However, our process allows us to estimate jointly the linear regression growth model and the crisis probit model. Based on literature, for example *Bekaert and Harvey (2005)* and *Kaminsky and Reinhart (2000)* show that the direct effect of financial liberalization on growth is positive, while the indirect effect - through a greater probability of the

crisis - is negative. Non-linearity probit specifications is sufficient to identify the model and, in particular, to distinguish directly the indirect effect of financial liberalization.

Therefore, we present in the probit regression of variables that are excluded from growth. The choice of probit model specifications is made using the Aikaike information criterion. In the probit equation we introduce the financial liberalization index and all the control variables of the growth equation. We then choose the specifications that minimize the Aikaike criterion.

The specifications of the growth model and the crisis model at the same frequency are useful for annual evaluation.

2. Data source

Our sample comprises ten emerging countries of Asia and Latin America over a period of 35 years (1975-2009). Furthermore, we take into account information concerning the dates of banking crises, and monetary and financial liberalization. The full description of the sources and the construction of the variables used in the regression estimation are presented in Appendix A. Our data are annual, and come primarily from the database of the World Bank's "World Development Indicators (2010)".

The financial liberalization index is used as a financial liberalization proxy. A calculate of this index is a qualitative estimate based on the type and year of liberalization. Thus, construction of this index comprises six different elements of the process of financial liberalization (liberalization of interest rates, reserve requirements, prudential regulation, and barrier to entry, credit control and privatization of commercial banks). Appendix B provides the dates of liberalization for the countries of our sample.

We chose to focus on financial crises that are characterized by the coincidence of banking crises and currency crises. The main reason for this is that the twin crises are largely concentrated in financially liberalized economies. Appendix C provides the dates of the twin crises for countries in the sample.

The dependent variable in the growth model is calculated as the difference in logarithm of real per capita GDP. From this variable we calculate the rate of real per capita growth, by subtracting the logarithm of GDP at the time (t-1) to the logarithm of GDP of the time (t).

The explanatory variables for the standard growth equation includes the initial per capita income, investment is measured by the

ratio Logarithm (investment/ GDP), Logarithm of the inflation rate. High inflation characterizes economies where the financial repression is high.

The economy liquidity is measured by the logarithm of M2/PIB. Openness to trade ratio is calculated by the (exportation + importation / GDP). The capital human stock is measured by the ratio of secondary education enrolment and the amount of loans to private sectors is measured by the ratio of private credit to GDP.

The financial liberalization impacts: static and dynamic analysis

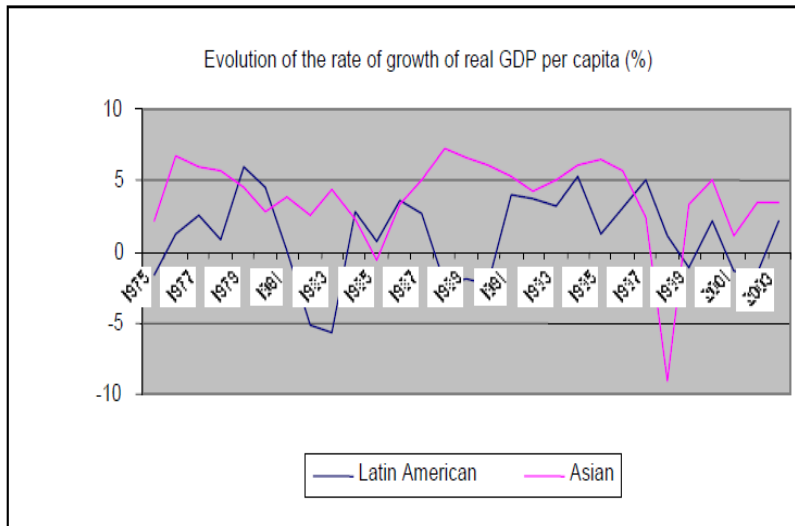
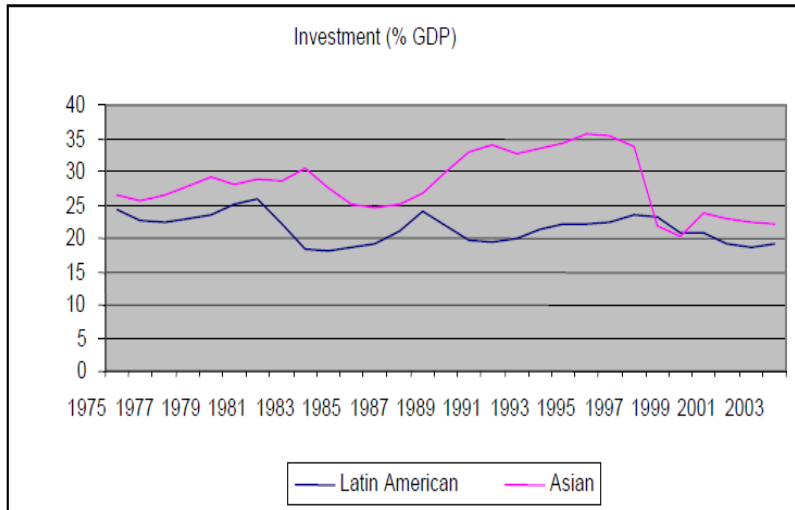
The objective of this study is to develop a theoretical and empirical overview of financial liberalization in emerging countries where the majority of their funding is effects by banks.

Thus, two opposite effects on the real economy appears. First, financial liberalization allows an increase in interest rates which increase the savings. A higher savings mobilization allows the financial sector of the economy to grow. The financial sector is different functions that improve the quantity and quality of investment and thus promote growth. Second, financial liberalization leads to additional costs in terms of banking and monetary crises to have adverse effects on the real economy.

1. Impact on investment and growth

The massive entry of capital in the south-east Asia have led to a rapid economic performance of these countries due to high growth of credit facilities and an effective transformation of savings into productive investments. Indeed, the GFCF increased from 37% of GDP on average over the period 1990-95 to over 42% in 1996 and the real per capita GDP growth rate is positive until 1997, when the financial crisis appears.

As against Latin American countries have unregistered a sharp deterioration on economic performance (decline in the investment rate and the fluctuation dangerous economic growth rate).



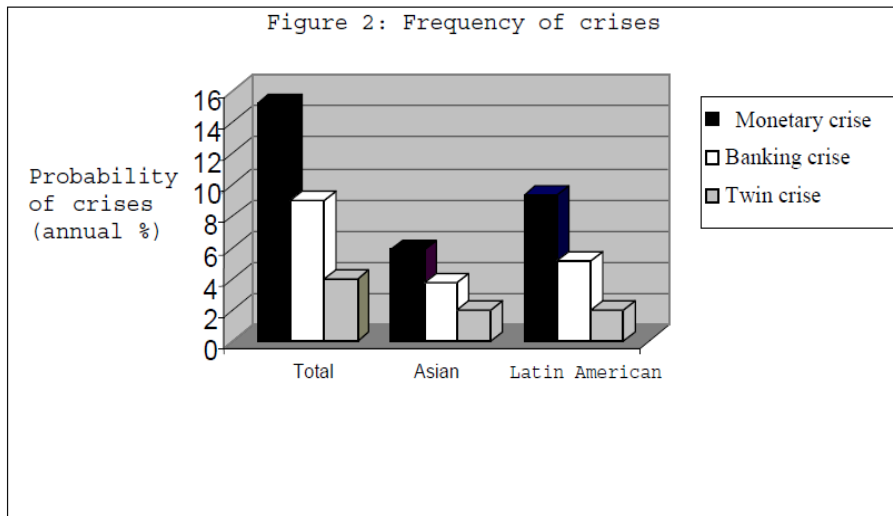
From this graph we can see that before 1996, for the South East Asia countries (Indonesia, Malaysia, Korea, Philippines and Thailand), financial liberalization has positive effects on growth and development economic. Recent events show that despite the good macroeconomic indicators Asian countries have moved from a situation of financial repression (repressed economy) to financial crash.

Today, several studies show that in the Asian countries financial liberalization has made too quickly and poorly applied. Now, the causes of banking and currency crises are explained by many attempts. The causes of these crises are many and include severe macroeconomic shocks external, high real interest rates, management and banking fraud, inadequate regulation and supervision of financial institutions and the implementation of new came with no experience of the bank.

2. Impact of Crises

Figure 2 shows the frequency of crises in our sample study in a context of financial liberalization over the period 1975-2009. This frequency is defined as the number of crises divided by the number of countries multiplied by the number of the period. Then, Latin American countries are most affected by a banking or currency crisis that the Asian countries.

In total, we note that the probability of persistence of a currency crisis is higher than a banking crisis.



3. Estimation results

The estimation results based on a growth model and a crisis model provided using annual data are presented in Table 1. The top panel (A) presents estimates of the growth equation, while the bottom panel (B) summarizes the estimates of the probit equation.

Panel A
Impact of twin crisis on economic growth: sensitivity analysis

variables	Arellano Bond dynamic panel data estimation
Pib _{t-1}	0.675 (20.23)***
INV	0.125 (6.43)***
INF	-0.017 (-2.93)**
LIQ	-0.024 (-1.96)*
Crisej	-0.0634 (-4.07)**
CR	-0.075 (-1.07)
OUV	-0.012 (-1.42)
ILF	0.00195 (1.23)
KH	0.053 (0.87)
Constante	0.015 (1.48)
Observations	350
Specification Tests (p-values)	
- Sargan Test	0.78
- 2nd order Correlation	0.85

Notes: t-stat in parentheses. *, ** and *** indicates significance at 10%, 5% and 1% respectively.

Panel B
Liberalization financial and twin crises: Probit estimation

variables	Probit estimation
Pib _{t-1}	0.026 (0.56)
INV	0.625 (1.03)
INF	0.247 (2.86)**
LIQ	-1.014 (-1.76)
CR	0.652 (1.98)**
OUV	0.032 (0.032)

ILF	0.026 (2.43)**
KH	-1.536 (-0.43)
Constante	-0.687 (-0.87)
Observations	350
Pseudo R²	0.256

Notes: t-stat in parentheses. *, ** and *** indicates significance at 10%, 5% and 1% respectively.

The main results can be summarized as follows. First, financial liberalization has a direct positive and not significant effect on per capita GDP Growth. The next testable hypothesis is that financial liberalization enhances financial deepening and hence directly increases an economic growth.

Several features are worth noting. First, the sign and magnitude of the coefficients of explanatory variables are as expected, and the coefficients are statistically significant in most cases: financial liberalization, openness and the investment/GDP ratio are positively associated with economic growth, whereas the crisis dummy, the initial GDP, and inflation are negatively related to economic growth.

Second, the incidence of twin crises is likely to decrease annual GDP growth rate by 4.9 percent point. This result is consistent with findings in the crises literature. The financial liberalization significantly creases the probability of a twin crisis.

Third, and most importantly, the point estimates of the FL dummy and the FL index suggest a substantial impact of financial liberalization on output growth through the deepening of a country's financial system. For example, financial liberalization appears to increase the annual GDP growth rate by 0.195 percent point for the whole sample.

The lower panel in Table 1 presents the results of probit regressions, of which main findings can be summarized as follows.

First, the FL dummy variable is positively related to the probability of crises as expected, and the coefficient estimate is statistically significant at the 1 percent level. This result reflects the fact that financial liberalization is expected to increase the likelihood of crises by inducing excessive risk taking behavior. The inflation rate and private credit are also likely to increase the probability of crises, while

other regressors including the bank liquid reserve ratio and human capital turn out to be less significant in the incidence of crises.

When the regressor is a discrete variable, one can easily find the marginal effects by computing the change in the predicted probability that is conditional on the (discrete) explanatory dummy variable.

A table 1 shows that the marginal effect of the FL dummy is 0.015, which implies that financial liberalization is expected to increase the probability of crises by 1.1 percent point.

Table 1: Marginal effect of financial liberalization

variables	Probit estimation df/dx
Pib_{t-1}	0.0025 (0.87)
INV	0.035 (1.27)
INF	0.0014 (2.56)**
LIQ	-0.074 (-1.87)*
CR	0.037 (1.96)*
OUV	0.0021 (0.137)
ILF	0.015 (2.76)***
KH	-0.055 (-0.45)
Observations	350
Pseudo R²	0.196

Notes: t-stat in parentheses. *, ** and *** indicates significance at 10%, 5% and 1% respectively.

In our sample the annual unconditional probability of a twin crisis is:

$$probability\ twin\ crisis = \frac{twin\ crisis\ number}{countries\ number \times period\ number} = \frac{12}{10 \times 35} = 3.428\%$$

The direct growth effect of financial liberalization is 0,195 percentage points. This indirect growth cost is -0,095 percentage points of annual growth.

Table 2: Liberalization and Crisis Effects on Economic Growth

Direct Growth effect	0.195%
Indirect crisis effect	-0.095%
Net effect	0.1%

Table 2 reports the net effect of financial liberalization. Recall that the crisis effect can be computed by multiplying the coefficient estimate of the twin crisis dummy in the random effects regression by the marginal effect from the probit regression. The results in Table 1 show that the liberalization effect dominates the crisis effect. It leads to a positive net effect of financial liberalization on economic growth. The total growth effect of financial liberalization is a from 0.18 percentage points of annual GDP growth, that coincide with previous estimates in the literature.

Conclusions

Much work has requested that financial liberalization is not the most appropriate and adequate for growth because of the crises linked with it. However, it is the wrong lesson to draw. Our empirical analysis shows that financial liberalization leads to sustainable growth, but it also leads to occasional crises. We note that in more countries, financial liberalization leads specifically to the financial fragility and twin crises. Although crises are costly and have dangerous effects too, they are rare events. Therefore, a long-term effect of a developed financial system is structured and well above the negative effects of financial fragility, banking and currency crises.

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Appendix A: Sources and definitions of variables

Variable	Definition and construction	Source
Real per capita GDP	Logarithm real per capita GDP	World Development Indicators 2010
Investment rate	(FBCF+ΔS)/GDP	World Development Indicators 2010
Inflation rate	Consumer price index	World Development Indicators 2010
Trade openness rate	(Exportations + Importations)/GDP	World Development Indicators 2010
Humane capital	Ratio of enrollment in secondary education	World Development Indicators 2010
Private credit	Private credit/GDP	World Development Indicators 2010
Financial liberalization index	Dummy variable	Divers rapports de FMI et working Papers
Twin crisis index	Dummy variable	Divers rapports de FMI et working Papers
Economy liquidity	M2/PIB	World Development Indicators 2010

Appendix B: Some data of currency, banking and twin crises

Countries	Currency crisis	Banking crisis	Twin crisis
Argentina	1975-1982-1984-1987-1989-1991-1995	1980-1984-1985-1989-1995	1984-1989-1995
Brazil	1987-1990-1998	1990-1994	1990
Chili	1975-1977-1982-1984	1976-1981	
Mexico	1976-1982-1983-1985-1990-1994-1995	1981-1994	1994
Peru	1975-1977-1983-1988-1990-1992	1983-1984-1985-1989	1983
Korea	1980-1997-1998	1997-1998	1997-1998
Indonesia	1978-1983-1986-1997	1994-1997	1997
Malaysia	1975-1997-1998	1985-1998	1998
Philippines	1982-1983-1986-1997	1981-1998	
Thailand	1981-1984-1997	1983-1987-1997	1983-1997

Source: Divers rapports de FMI et working papers, divers rapports de la Banque Mondiale, working papers and discussion papers, divers rapports de FMI et working papers, divers rapports de Banque Mondiale, working papers and discussion papers, Demirgüç-Kunt and Detragiache (1998) et Luc Laeven (2000).

Appendix C: financial liberalization with respect to six measures

Countries	Interest rate	Barrier entry	Reserves requirement	Control credit	Privatization	Prudential Regulations
Argentina	1989	1977	1993	1993	1995	1994
Brazil	1989	1991	1988	1994	1997	1998
Chili	1985	1997	1980	1976	1986	1986
Mexico	1989	1993	1989	1991	1992	1994
Peru	1991	1996	1991	1992	1995	1993
Korea	1993	1989	1996	1996	1983	1992
Indonesia	1983	1988	1988	1990	1992	1997
Malaysia	1991	1994	1994	1991	1988	1989
Philippines	1985	1994	1994	1983	1996	1993
Thailand	1992	1995	1992	1992	1988	1997

Source: Divers rapports de FMI et working papers, divers rapports de la Banque Mondiale, working papers and discussion papers, divers rapports de FMI et working papers, divers rapports de Banque Mondiale, working papers and discussion papers, Demirgûc-Kunt and Detragiache (1998) et Luc Laeven (2000).

Accounting Communication Considerations and Recommendations to improve it

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Abstract

The present paper attempts a critical approach of the efficiency of accounting-financial communication, especially through the Synthesis financial reports.

The paper identifies the communication problems, their causes, it defines and delimits the various aspects of informational efficiency and proposes ways of improving it.

Keywords: accounting- financial communication, synthesis financial reports, efficiency

Introduction

Nowadays, the financial communication faces a wide range of obstacles, in terms of homogenizing forms of communication. Moreover, under the conditions of increased globalization, the communication on capital markets has started to face a visible phenomenon of change. Thus, people from different corners of the world, although they managed to overcome the barriers of the language of communication, among various international collaborations they face the huge differences regarding the purchase and delivery of the financial information. It is well know that each decision is based, particularly, on the information from the financial statements. But both, the form of these synthesis financial statements as well as the conceptual language used to elaborate them presents numerous conflictual hints.

In decreasing the effects of the differences of financial – accounting culture IASB left its mark also (The International Accounting Standards Board), having as main objective the homogenization of the financial report, the irrefutable proof being the

gathering of international financial report standards IFRS (International Standards for Financial Report).

Material and methods

The article starts from the premise that they are issues generated by the communication of accounting information to users. In this point, the article analyzes theoretically the problems noticed during the evolution of the modern Romanian accounting system, as they are mentioned in the specialized literature

Literature review

The problem of preparing the financial statements was the object of many studies. Thus, the standardization bodies and accounting researchers, practitioners and theorists were concerned about the extent to which the financial statements through their contents satisfy the information needs of users. International Accounting Standards and International Financial Reporting Standards, the European Directives in the field of accounting and the work of authors such as Stancu I. (2008), Duțescu A. (2000,2003), Cotleț D., Megan O., Pistol I. (2007), Bătrâncea I. (2006) have analyzed this issue by demonstrating the limits of accounting communication through annual financial statements.

Results and discussion

Romania currently faces some economic, political, social, cultural irreversible processes which are of great interest for accounting:

- increasing the number and power of the transnational companies;
- globalization of the economies, mainly of the financial markets;
- development and emergence of new financial products.

To adapt to this new reality, the Romanian accounting system has to harmonize with the provisions of the communitarian aquis and implicitly, the effective implementation of the International Standards for Financial Reports. At the „reconciliation table”, all the producers and users of financial – accounting information must be invited. Although IASB meets almost all categories of users of accounting information, the role of the Romanian standardizes remains essentially in the process of convergence and regulation of the profession of accountant, especially because of the peculiarities of the Romanian economic environment. Gratifying is that the latter have realized the

need to align to the norms of the communitarian aquis in respect of financial-accounting report. Once you start down this road, there is no turning back. Therefore, through the normative acts which were implemented, commendable contributions in terms of assimilating the international conceptual accounting framework were made.

The start of harmonization of the Romanian accounting legislation with the regulations of the European Community was made with the publication of the OMF 403/1999 „The Accounting Regulations Harmonized with the 4th Directive of the European Economic Community and with the International Accounting Standards”. Two years later the OMF 94/2001 was issued by which additions were made to the process of connection with the provisions of the IVth Directive of EEC, with the mention that small and medium sized companies will apply the IAS provisions, but in a simplified form. Later by OMF 306/2002 the regulations regarding the simplified financial report statements, harmonized with the European Directives, were approved. The OMFP 1752/2005 provides a removal of the Romanian conceptual accounting framework from the provisions of the International Accounting Standards, preferring a focus on the vision dictated by the European Directives. Perhaps, hoping for a late reconciliation, the legislative authorities issue OMFP 3055/2009 brings no alterations to the format of the annual financial statements, but produces changes at the level of accounting strategies and policies.

All these normative acts were intended to identify the optimal solution for „the recipe” of an impartial financial report, which should aim the revealing of the true picture of the economic state of an entity.

The question mark raises when, although the user of accounting information gets this information in due time, at a low cost, the adjustments considered theoretically correct, differ significantly from the actual values registered in the future.

The explanation of the obtained estimation differences consists in not obeying a basic working hypothesis, used in the theory of capital markets and not only and namely the hypothesis of the financial markets.

In his extensive work (2008, *Finanțe - piețe financiare și gestiunea portofoliului*, București, Editura Economică) professor Ion Stancu believes that „An efficient financial market is that market in which the arbitrage opportunities of the differences between the market

price and the actual value of the investment in buying the financial title are missing”.

The financial efficiency may be analyzed from three different points of view: informational efficiency, organizational efficiency and operational efficiency.

Interesting for us in the context of work is the informational efficiency. Through the informational efficiency, the market ensures the reflection of all relevant information, related to the transacted securities and to the characteristics of the market, in prices, without omissions and distortions.

Given that, through informational efficiency we understand a cumulative integration of historical data, of the information available and of the privileged information, owned only by shareholders and managers. In his study, Eugene Fama made a pyramidal distinction regarding the concept of efficiency of the financial markets, defining three forms:

- the weak form, in which the prices of the assets reflect all the historical information, without the possibility of higher gains obtained by some operators on the market, only with the help of this information;
- the semi-strong form, in which the prices of the assets incorporate not only the historical information, but all the information that are available related to the characteristics of the assets;
- the strong form, in which the prices of the assets reflect not only the information related to the historical evolution of the current assets, but the privileged information also, held by shareholders and managers.

Preparing the financial statements, although tacitly dictated by the provisions of the European directives in that field, must take into account the specificities of the national economy, the needs of the social actors, their own financial culture and last but not least, the influence of the political factor, which exercises a pressure on the accounting profession, through a sudden pollution of heavy tax items.

In addition, we renounced to an adjustment to IAS provisions, which offer more flexible solutions regarding both, the format of the financial statements as well as the accounting strategies and policies, and we choose for a variant of the European directives, which are more rigid.

The task of the Romanian standardizers in the process of harmonizing the Romanian accounting framework with the proposals of the international accounting legislation is not easy at all, but we

consider the approach to the proposals of IASB to be convenient and, at the same time, noting some innovations brought together with the FASB works. (Financial Accounting Standards Board). Although, at European level, a unification of the intra-communitarian countries is desired, the provisions of the European Directives are not a solution. We consider the solutions submitted by IASB projects much more appropriate to ensure the success of the process of European accounting convergence.

Last, but not least, hard works have the appraisers and the financial auditors, by their legal representatives, ANEVAR and, respectively, CAFR. You shouldn't forget the trade – union representatives or the bank creditors, taking into account that there is the need for development of a social movement to protect the employees and a balanced mediation of conflicts as against to the main owners of capital funds in the continental countries.

The accounting information is elaborated taking into account the accounting strategies and policies, permitted by law and adopted by the entity, hence, of a nuanced manner, giving birth to the concept of „creative accounting”.

Since the accounting treatment used by the entity in elaborating the financial strategies have multiple capacities of calculation and interpretation, it is necessary a certification of the quality of the accounting information, in order to eliminate or at least to diminish the effects of creative accounting.

A reasonable conclusion regarding both the accounting engineering's and the calculation errors encountered or the deficiencies of the informational system, can only be issued by the financial auditors, but as SNA 200 mentions that „The objective of an audit of the financial statements is to express the auditor's opinion whether the financial statements of the economic agent are prepared in all significant aspects, according to the requirements established towards these financial statements.”

In turn, the investors, creditors and other users of the accounting information turn to the related services of a special category of specialists, namely the appraisers. These are those who use the information from the financial statements elaborated by the entity and approved by an independent auditor, in order to carry out various economic and financial analyses, which in particular, aim at assessing the entity in terms of market. Both, the profession of auditor and that of appraisers are subjective, like the profession of accountant, to the

process of harmonization with the international profile provisions. Thus, through the National Audit standards (SNA) and respectively the National Evaluation Standards (SEV), one intends to align to the requirements of the European legislative framework in terms of audit of the financial statements and evaluation of the companies.

Nationally, the profession of audit has been regulated by OMF 75/1999, regarding the activity of financial audit. The 44 Audit Standards, harmonized with the collection of International Audit Standards ISA, establish, among other things, the general framework for auditing the financial statements, the responsibility of the auditors, the audit planning, the risk assessment, the selection of audit evidence, references to the conclusions of the auditor and reporting upon the financial statements.

As for the relationship accounting – evaluation, the connection proves to be very tight, as most problems claimed by the specialists in elaborating the financial statements of synthesis come from evaluating the financial structures.

Indeed, the problem of evaluation in accounting raises many questions regarding the basis of evaluation used, or the methodologies used. Next, we will point some aspects of the concept of value approached from the point of view of the standards of evaluation, compared with the concept of value used in accounting.

The Committee of International Valuation Standards (IVSC) is trying to convey a more accurate definition of the concept of „market value”, considered by the appraisers as being the fair value of the financial balance structures. By these standards, a set of alternative bases of evaluation are defined, references are made to the evaluation report (IVS), norms of evaluation are established, which are useful to the financial reporting, or for guaranteeing loans (IVA), or evaluation practices are proposed for various financial structures (GN) as evaluation of the movables (GN5) or evaluation of properties (GN1).

The Romanian standardizers have managed to synthesize as part of the National Evaluation Standards (SEV) both the section of conceptualizing the evaluation approach and the practice of such a profession. An important milestone in the process of reformatting the current accounting system is that of approaching the concept of „fair value” in accounting, which is well defined in SEV.

This concept can take many forms, in terms of its calculation, because of the differences of opinion arising between different users of

accounting information. Therefore, an appraiser prefers „the market value” of an asset, given that there is a market where that asset can be transacted. But a manager chooses for a fair value to reflect the economic potential of the analyzed asset, namely the use value, determined by updating the future benefits obtained by using the asset assessed in the activity of the holding entity.

Therefore, the format of the financial statements has to be established in collaboration with all the participants in the overall activity of the entity. As for the financial fund of the reports, the solution of a true image of the economic situation of a company can be feasible only if the process of deregulation results in success. In the last years, professional bodies such as CCECAR, ANEVAR or CAFR have managed to consolidate their decisional positions more and more in the approach of legislative regulation of the accounting and evaluation profession.

Also, despite the many differences between the rules issued by IAS, respectively FAS, which are also underlined in the paper „Comparative accounting systems” of Professor N. Feleagă, the current changes describe a tendency to homogenize the international accounting referential.

Conclusion

All these confirm the necessity of a new direction which the Romanian accounting system has to follow to meet the needs of the users of accounting information. Although, by the new regulations in the matter, our country is moving away more and more from the spirit of the conceptual IASB framework, we keep hoping for a new stage, in which the Romanian standardizers choose a rather economical approach, released from the tax burden, which focuses on an extensive information. Their mission seems quite difficult, a cause-effect „analysis” can offer viable solutions to the problems the accountants in our country are facing. It is also true that any law is subject to interpretation, but by establishing some methodological norms of clear and concise implementation, based on stimulations made in advance, one can also create an efficient implementation framework. Moreover, an improvement of the financial reporting must not be based on providing information in large quantities, but rather on providing less, but qualitative information.

Providing foreseeable information or renouncing step by step to the accrual accounting, drafting of reports meant to inform the employees or to reveal the way of forming the indicators of added value and of the contribution of each production factor that contributes to its creation are only a few ways to solve the form and content problems of the approach of financial communication.

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Education - an investment in human capital

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Abstract

Formal education, personal abilities and the health state play an important role in this paper. Those are all essential constituent elements of the human capital.

In the present paper we intend to present briefly the fundamental concepts of the human capital, with an emphasis on education and abilities. We also mark out the importance of the human capital development in the purpose of maintaining the development and the motivation of the human resources, which are the main premises organizations need to capitalize. The higher education has a determinant role in the attainment of this desideratum.

Keywords: human capital, education, teaching, learning, educational capital, investment.

Introduction

It is essential to take into consideration the contentions of Martha Christina Suci, the author of “The investment in education”, who shows that the main driving force which can either inhibit or impel the formation activity, is the investment in human capital. Ion Jinga, in his paperwork “Education as an investment in the human being”, highlights the fact that the most efficient investment, socially as well as individually, remains the one made in order to form people. The book of G. Becker, “The human capital”, is a reminder of the message of the creators (“the parents”) of the economic science, message that openly claims the most precious resource at the disposal of the human being in

his millenary fight to better his own well-being, is the human being itself.

Education and professional training are the most important investments in human capital. The aim of every public policy, no matter if it's regarding the transformation of the education, of the sanitary system or of the fiscal one, is to better the life of people. Hence, the human capital develops progressively in the formal field of school, in the family, in the organization and by the means of the individual efforts of studying and reflecting.

The human capital therefore reflects the investment in education and the development of certain competencies and skills, necessary to carry through a certain economic activity. The value of this investment in education depends, on one hand, on the expenses made on education, and on the other hand, on the anticipated future benefits generated by the knowledge acquired through education. Given the concept that the majority of knowledge, competencies and qualifications are gained in school, through the instructive – educative process, through the education and inferentially through the higher education, it has been acknowledged its determinant role in the aggregation and development of the human capital, and as informed, in the economic development of a country

Material and methods

Even though it has met its affirmation and conceptual structure only after the seventh decade of the twentieth century, the term of human capital was utilized long before the term of economy. As Kiker (1968) remarks, two methods were used to estimate the monetary value of the human being: the procedure of the production cost and the one of the net incomes of the “making” of the human being in its development, excluding its costs of “maintenance” – sir William Petty and Ernst Engel being amongst the promoters.

The second method consists in the evaluation of the present value of the past and future incomes of the individuals, J. Shield Nicholson and Alfred de Fosill being the most popular economists who used this method. Without offering a modality on estimating the value of the human capital, Adam Smith (“The Wealth of Nations”), has defined as generally being the elements of the capital, the “useful” abilities and knowledge of the human being, referred to as a machine having costs as well as the capability to produce, in return of revenues.

The end of the fifties and the whole seventh decade have brought back the human capital under the “spotlight” of the academic world, especially under the incentive of the paper works of Theodore Schultz, Jacob Mincer and Gary Becker.

Initially, the modern theory of the human capital has developed around the group of the University of Chicago, which was intellectually coordinated by Theodore Schultz, president of the American Economic Association. Schultz and his collaborators have treated the educational and health expenses as being investments with the aim of economic growth. The superior levels of education offer people a wider modality regarding the change of profession with the augmentation of revenues. For example, it is much easier for a person with a superior level of education, to adapt to the changes present on the labor market, by learning new skills or by applying older knowledge in new situations.

Efficiency, economic performance and competitiveness impose with priority investments in human capital with the purpose of creating professional competencies, which are specific to the field of activity and to the capability of adapting to the dynamic of the labor market's demands.

1. The anticipative junction of the higher education to the labor market is a necessary condition also to the competitiveness of a country. From here derives the necessity of developing an operational system of qualifications in the higher education which can ensure a real correspondence between the preparation of the students and the job occupied, and which can create an accurate image in the social and economic field.

2. The permanent education represents a principle of projection and organization of the education in the perspective of its deployment in different forms, throughout life, determined for the purpose of growth of the economic performance and of the competitiveness of a nation. Regarding permanent education, the main indicators of evaluation point are:

- the degree of participation at the activity of permanent learning (“lifelong learning” of the population aged between 25 and 64 years);

- the degree of participation at activities of permanent learning, including the formal education, the non-formal and the informal ones. Relevant information regarding the rate of participation of adults to the formal, non-formal and informal education are offered by the Pilot

Inquiry concerning the Education of Adults (2010 – AEDA) made by the Romanian National Institute of Statistics.

3. Ensuring the quality of the human capital from the higher education, from the perspective of the formation and the certification of professional competencies, regards two categories of human resources:

a) The graduates – by ensuring the competencies, the skills and the abilities which can allow an easy entering on the labor market, in accordance with its demands,

b) The academic body – by its formation in the spirit of development and modernization of the initial and continuous formation.

The activity in universities, its goal, must be correlated with the stringencies of the society, with the other levels of organization of the education and with the economic realities.

Specialists think that an educational system which does not develop the pupils'/students' capability of capitalizing the knowledge in different concrete situations, the creativity and the innovative spirit cannot be considered as being good and efficient education systems.

Through educational capital certified by diplomas, the problem of measuring at an individual level is not very tetchy, even though the different methods of usage can be discussed: measuring by years of school, by degrees of instruction. In exchange, the non-formal education produces stocks of educational capital which are very difficult to estimate.

The simple measurement of the scholastic participation is “less satisfactory than the direct testing of abilities, but it can be difficult to test all the relevant abilities” (OECD, p.15). A possible measure is the usage of an indirect measure, as the formal educational capital stock of the parents (expressed for example through the total number or the mean value of school years that parents graduated). An alternative method is the one suggested by International Adult Literacy Survey (IALS – described in OECD, 1998, p.22-28), in which adults are evaluated on three scales of general culture: prose literacy – knowledge and abilities necessary to understand and use the information from newspapers, fiction tests and explicative texts; document literacy – knowledge and abilities necessary to find and use the information contained by official forms; quantitative literacy – knowledge and abilities necessary to apply mathematical operations in lettered materials.

Using practical research methods: comprehensive quests regarding the demand for labor force and the evolution of occupations on the Romanian labor force market in the 2010-2012 perspective; available demographic statistics, methods used in the prognostic analysis of the labor market in the most important EU countries, studies made by the National Institute of Statistics with the pilot inquiry named “The growth of the interest for the higher education”, the sample represented by the adult population (aged between 25 and 64 years), analyzing the degree of participation at any learning activities, the quantitative and the qualitative results obtained after the adoption of the methods, lead to the idea that the education must be seen as a process which needs to show its efficiency and effectiveness in time, a process that invests in human capital in a planned manner, for it to show its productivity in time.

Literature review

Jacob Mincer, Gary Becker and those who followed, have focused more on studying the relations between the human capital and the revenues from labor, and to be more specific, on studying the variations of the revenues, by the degree of education of the individuals. In 1974 Jacob Mincer examined the relationship between an added year of school and the anticipative growth of revenues throughout life. Mincer considered that the only cost of an additional year of school is the anticipated revenue, hereby ignoring the direct costs, as are the study-related fees. This fact is determined by the used data, so that the results of this research must be regarded as being an estimation of the superior limit of investments in education (Mincer, 1974, p.89-91). Recently, in the specialty literature (Krueger and Lindahl, 2000, p.36-85), it has come to an important conclusion which corresponds to the results obtained by Mincer: in USA, each additional scholastic year raises the lifetime revenues by approximately 10 %. These results help us understand the effects of the education upon the future anticipated revenues of the individual, which also expand to the level of economy as a whole. According to one enunciation (Heckman and Klenow, 1998, p.63) of their model, they have discovered that “education really has a more important effect at a macro level than at a micro level”. Professor Gary S. Becker (laureate of the Nobel Prize for economy) highlighted the economic effects of the intellectual investments and identified the

professional formation of the human factor among the activities which influence their “future pecuniary revenue of the individuals”.

The complexity of the interrelationships between the importance of the higher education and the labor market can be singularized from the perspective of the statistic systems of classification used by the following sources: Romanian National Institute of Statistics; the inquiry regarding the Education of Adults – AEDA 2008; EUROSTAT – data base available online for the macroeconomic indicators; OECD – statistic data regarding the indicators of the labor market from the OECD countries; MECTS – the report of the state of the educational system 2010; The Integrated Strategy of Developing the Human Resources from the perspective of learning throughout life, 2009-2010.

Results and discussion

In the present, in Romania, at a strategic level, the main operational instrument for ensuring the quality in the human resources field is represented by the Human Resources Development Operational Sector Program.

From a few characteristics regarding the actual state of the educational system – according to the National Institute of Statistics, we can focus on the following.

The evolution of the number of students in the 2005-2010 periods has had a tendency of growth, having periodically recorded periods with slow augmentations of the number of students as well as periods with more accentuated augmentations, the last years representing certain stabilization. The interest for the higher education has risen to the point where in the last university years more than a half of the population of Romania, aged correspondently, was comprised in this level of education.

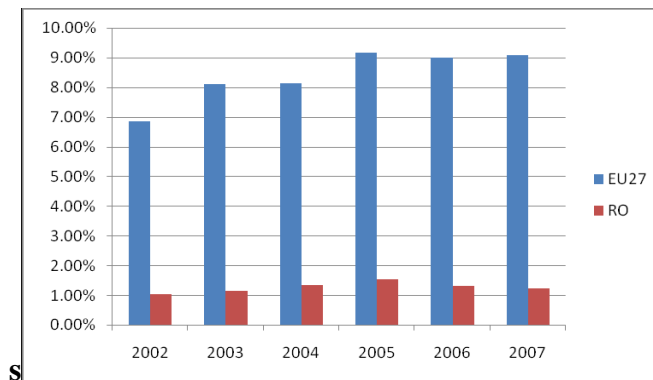
Table nr.1. Effectives of students

Higher education		2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010
	Total	716464	785506	907353	891098	850704

Source: National Institute of Statistics, <https://statistici.insse.ro/shop/>

Regarding the degree of participation at the activities of permanent learning of the population aged between 25 and 64 years, at the level of the European countries, we conclude by saying that in the Nordic countries– to which we add Switzerland and Holland, there are the highest rates of participation at activities of permanent learning amongst the population aged between 25 and 64 years, 26 % and 36 %. The extremely reduced values of the indicator under 3 % are recorded in Bulgaria, Romania, Greece and Hungary.

Figure nr. 1. The degree of participation at activities of permanent learning of the population aged between 25 and 64 years, Romania vs. UE27

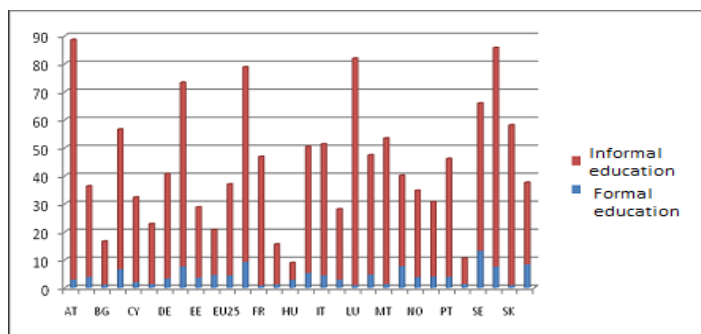


Source: Eurostat,

http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

According to an Eurostat survey made on a sample represented by the adult population (aged between 25 and 64 years), analyzing the degree of participation at any activity of learning, highest rate of participation in activities of formal education, of over 5 %, are recorded in countries as Sweden, Finland, Switzerland, Holland, Ireland, Great Britain and Slovenia.

Figure nr. 2. The structure of the participation at any activity of learning



Source: Eurostat,

http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

In the case of the activity of informal education – over 60 % is recorded in Austria, Finland and Denmark. Our country records reduced levels of the rate of participation of the adult population at the educational activities, in the case of the formal education (1 %) as well as in the case of the informal education (9 %)

Table nr. 2. The participation degree of the population at activities concerning with adults education

Type of education	Population who have participated at education (thousands of persons)	Rate of participation (%)
Formal education	431	3,6
Non-formal education	574	4,8
Informal education	2240	18,8

Source: The National Institute of Statistics, the Pilot Inquiry regarding the Adult Education, 2008 – AEDA

The study regarding adults education, made by the National Institute of Statistics shows that 2706 thousands of persons (22, 8 %) of the population aged between 25 and 64 years (11893 thousands of persons) have participated at least one educational activity during the period of twelve months.

In the last years in Romania, the human capital was affected by the austerity measures, and the effects are hard to quantify. There have been affected fields of national importance – one of them being the education, and the human capital is hard to regenerate implying long cycles and very high costs. But maybe the most eloquent example is Japan, a country that is missing inherent natural resources, but understood that the future is based on education, and on investments in human resources, and has ended up being one of the most developed countries of the world.

It is important to mention the fact that it has formed its educational system even before creating a successful economic system, and has allocated in some periods more than a tierce of its budget for investments in human capital and consolidation of the education.

In Romania, the educational system must be oriented to satisfy the real demands present on the labor market. Taking into consideration the human resources that Romania has and the fact that those resources are underused, the private and public allocations oriented in human investments must become a priority for the economic policies.

Conclusion

To be able to develop and aspire to a sustainable growth you need a well trained and developed human capital.

Among the elements that characterize an educational system in the case of Romania, we can mention transparency, simplicity and difficulty to administer the necessary funds to the investments in education. The tendency of young people to continue their studies contributes to the tout ensemble development of the society – the evaluations are based in general on the high rates of recovery of the investment in education.

In order to maximize the effects of the education on the development of the human capital and on the economic development, certain rules must be followed: the quantity and the quality of the education measured in the number of years of studying; the percentage of the GDP allocated to education; the rate of scholastic participation,

the results, the scholar performances must to be high and the educational offer must correspond to the current demands and to the perspective of the labor market; the existence of a social and economic field, politically stable, and of an accelerated economic growth rhythm; the differences between revenues at an individual level need to correspond to the level of scholastic and professional preparation of the individual. The concept of human capital thence reflects the investment in education and the development of some competencies and skills necessary to accomplish a certain economic activity. Today in Romania the achievement of the objective “Investments in the human capital” becomes urgent; it is necessary to get through certain steps not only conceptual, but also regarding the habit of mind.

The formation of the human capital through investing educational processes remains a global responsibility for all individuals and governments.

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The Management based on Standards and Expense Budgets

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Abstract

The creation and the proper functioning of the organizations efficient structures depend on the knowledge one has of the normal consumptions and expenses in expense centers and compartments of structures. The comparison between the actual performances and the stipulations facilitates the appraisal and control of the accuracy of the costs employed on the principle of reverse connection. Consequently, the organization's managers can intervene in due time to eliminate the factors and causes that disturb the proper functioning of the economical and financial mechanisms.

Keywords: the system of managerial methods, cost standards and expense budgets, deviations from the stipulations, the management by objectives and the management by exceptions, the audit and the management control.

Introduction

The prerogatives of management can only be exercised by taking into account a group of managerial strategies and tactics which are defined in connection with a fundamental criterion. Thus, if the criterion consists of the company's objectives, we talk about "management by objectives"; if the criterion consists of the deviations between the actual performances and the purposes of the organization, we talk about "management by exceptions"; if the criterion consists of

the products manufactured, we talk about “management by product”; if the criterion is the cost, the management is “by costs and budgets”; in the case of large actions like the redesign of the firm or the adoption of Communicational and Informational Technologies, we talk about “management by project”, etc.

In fact, it can be stated that no pure managerial method can be used. It is a system of managerial methods adjusted to the organization and functioning of each business which appears to be more adequate.

Views on management based on standards and expense budgets

In the case of companies, the strategies and tactics adopted must take into account the organization’s objectives. In conformity with the requirements of the management by objectives, each stipulated objective must be associated with the person responsible and also with the authority of carrying the objective through. The efficiency of the triangle authority – responsibility – competence represents the condition for the company’s management to come closer to the purposes and performance of the entity along the perpetual route actions – information – decisions. Detailing the objectives at the level of jobs requires the establishment of the instructions to be followed in order to fulfill them. Moreover, the management by objectives involves the application of the standard costs method for the calculation of final products costs. This method makes it possible to timely determine the abnormal consumptions and expenses (the credit of the expense accounts comprises the direct expenses standards and the regulations for the indirect expenses, while in the debit the actual expenses are collected, expenses which, when they are incurred, are compared with the ones stipulated by standards and regulations).

As it is assumed in the management by objectives, cost standards are socially necessary levels of the consumptions and production expenses in normal conditions of technology and firm assets usage. Their usage in the informational and decisional processes provides managers with a powerful toll of cost control through the establishment of certain rules and corpora of rules that are to be reached in the internal processes of the organization. The standards are established at the level of the three great categories of production costs, namely the costs of raw material, labor costs, and general costs of production and administration.

The standards represent sizes and values established scientifically through modern methods of watching, recording and analyzing both the past events and the estimated elements that are planned for the period when they are going to be used. The standards reflect the expenses that are socially necessary for the unfolding of a particular process or phenomenon. At the same time, the management control requires the comparison between the standards and the actual results. This comparison is also needed in the case of management by exceptions. The managerial function of control can only be properly accomplished by comparing the actual cost and the standard cost at the level of each operation or responsibility centre for a particular period of time. The difference between the standard cost and the actual cost is called a deviation or an exception.

There are other advantages also attributed to the method of standard costs, namely stock planning, the assignment and leveling of manufacturing resources, the assessment of performance based on the system of responsibility management, the improvement of the stimulation systems, etc. The method presents a few disadvantages as well, namely the arbitrary interpretation of variations and the initiation of some less relevant intervention processes, directing the staff towards the reduction of variations instead of directing them towards the increase of the actions' efficiency, inefficient operational processes.

The management by exception is dependent on the knowledge of the deviations between objectives and actual performances. Consequently, each manager, according to his/her level, is assigned a sector in which it his/her responsibility to take decisions in order to correct the errors of functioning that might occur in that particular compartment. In the case of smaller deviations, the self-adjustment of the company's components' manifestation is the responsibility of the operative management, while the greater errors are the responsibility of the strategic and tactic management. This managerial method implies the existence of a rational informational system capable of providing "the exceptional situations", the determining factors and causes, and the necessary remedies.

According to the pre-established standards, in the case of management accounting three types of deviations are calculated: those of the direct costs of raw material, those of the direct costs of labor, and those of general expenses.

The total deviation of the cost of raw material consists of the difference between the actual cost of raw material and the standard cost of raw material. When the actual cost is bigger than the standard cost, the deviation is unfavorable. This deviation may be divided into two components: the deviation of the price of the raw material and the deviation of the quantity of the raw material, as both elements are taken into account in the calculation of the cost. The schematic representation of this deviation may be observed below:

The total deviation of the cost of labor is represented by the difference between the actual cost of direct labor generated and the standard cost of labor for the good units produced (the good units are represented by the difference between the total number of units produced and total or recoverable rejects).

The total deviation of the production general expenses is represented by the actual general expenses and the standard ones which are distributed to production by using standard lists. This deviation is divided into two parts: the controllable deviation of expenses and volume deviation of expenses.

The deviation of the quantity of raw material can be caused by various factors, namely by the inadequate quality control, by the inferior quality of raw material, by the violation of the consumption rate, by high specific consumptions, by a low quotient of material use, etc.

The deviations of basic salary may be caused by a larger increase in the remuneration than it was estimated, by the use of workers with a different qualification than the one required by the job, by the payment of bonuses, over-time and shifts, etc.

The deviation of the labor force's productivity is usually associated with the use of inferior raw material, with the use of new employees, with inappropriate working conditions, with the use of workers with a different qualification than the one required by the job, with the labor force's fluctuation, the significant weight of the medical leaves, etc.

The controllable deviation of the production general expenses may be caused by the overuse of the labor force in the functional and administrative structure, changes in overtime, unexpected price and tariff changes, increases in the unproductive expenses, etc.

The deviations of price are influenced by certain factors that affect the purchase price, namely the size of the purchased batches, the delivery method used, the discount system provided by the purveyor,

the quality of the purchased material, the dates of delivery, the taxation level, etc. If there are no changes in the market's functioning, it means that the unfavorable price deviation is the result of the managers' failure to find convenient purveyance sources. The management tends to control the quantitative variations more than the price variations.

The deviations' establishment contributes to the identification of the efficient and inefficient areas of activity, but the essence of an efficient control does not rest in simply identifying the deviations' size, but in determining the causes of this deviation and in establishing the proper corrective measures. The deviations' study facilitates the identification of the causes that lead to these deviations, the placing of responsibility in each centre, and the adoption of certain corrective or stimulating methods depending on whether the deviations were favorable or unfavorable.

The use of standards and the analysis of deviations become essential tools of management control. Of course, there are both advantages and disadvantages in using these means. Among the advantages we can note the following:

- the use of standards facilitates the implementation of the management by exception;
- standard costs facilitate the planning of treasury flows and of stocks;
- if practical standards are used, they promote efficiency and economy. Consequently, the employees become aware of such variables as time and cost. Moreover, standards represent a good system of providing financial stimulants;
- standard costs are more appropriate in the case of companies organized on responsibility centers (another management control tool).

There are some disadvantages connected with using standards as well:

- difficulties in establishing which deviations are noteworthy;
- if the entire management is centered around the deviations that surpass a certain level, then other useful information like the organization's analytical tendencies might be overlooked in the decisional process;

- on the one hand, if the managers' remuneration is dependent on the system of standards, some of them might hide, diminish, or even fail to report the unfavorable exceptions. On the other hand, the managers interested in the criteria of efficiency and economy, might take proper decisions in what the business is concerned, but might not benefit from positive results;
- with the implementation of standards and of the management by exception comes a transformation in the attributions of the supervisors often fail to visualize the entire process. Last but not least, standards, by establishing responsibilities, trigger a critical attitude towards the employees.

Regardless of these disadvantages, it may be concluded that the use of standard costs and the analysis of deviations given by the managerial accounting constitute strong points in exercising management control in a company.

The company's system of budgets represents the basic component in the proper exercise of the managerial functions of anticipation and control.

The budget, as a tool of the economical and financial activities' management, has the following functions:

- the function of anticipation, which is based on the fact that the budget represents the financial estimation of the levels of resources, of funds, and of expenses for all the economical and social activities that take place in a company;
- the function of control, which is exercised when expenses are incurred or conducted, when revenues as results of own activity are obtained, and when necessary funds are raised;
- the function of securing the financial equilibrium: the budget is used to conduct the balanced ratios between expenses and revenues.

The audit and the budgetary control, which consist of continuously comparing the results with the budgetary estimations, are performed with the help of the budgets. The purposes of the audit and the budgetary control are the following:

- to identify the factors and the causes of the budgetary deviations;
- to inform the managers and the administrators from different hierarchical levels;
- to create and carry out certain corrective actions;
- to judge the activity of various employees responsible for budgets.

In a company, the management monitors the activity by using a general budget which includes the operational budgets and the financial budgets. The operational budgets presuppose the estimation of the different types of resources, while the financial budgets offer the estimation of the company's financial resources, including the budget of the treasury activity, the estimated results account, and the estimated accounting balance sheet.

In the operational budgets of the companies with a production activity the following types of budgets are taken into account: sale budget, production costs budget, purchasing budget, human resources budget, General and Administrative budget, capital expenditures budget.

For many companies, the budget's main factor is the volume of sales and this constitutes the starting point for the budgetary process. The sales budget is a detailed plan, expressed in both physical and monetary quantities, which identifies the estimated sales of a product or a service for a future period (usually for a year).

The distribution activity budget is derived from the sales budget and it presents in detail all the expenses connected with the sales function of the company for a future period of time (usually for a year). The production costs budget is a detailed plan which presents the quantities and costs of each product and service that is to be manufactured or offered in order to satisfy the budgetary stipulations regarding sales and inventory needs.

The purchasing budget is a detailed plan that identifies the number and schedule of raw material and other types of materials that are to be purchased in order to satisfy the needs of the production process. The human resources budget identifies both the labor force needs for a future period of time and the salary expenses connected with the needs.

The indirect costs budget presents the production costs that need to be conducted in order to carry out the stipulations connected with the

production process for a future period of time. Such expenses as the raw material costs and labor force costs are not taken into consideration.

The General and Administrative budget offers a detailed plan of the working expenses necessary for the carrying out of the company's general activity in the future. Such expenses as those connected with the production and merchandising functions are not taken into account.

The capital expenditures budget presents in detail the sums and schedule of the capital expenditures estimated for the future. The information connected with capital investments influences the budget of the treasury activities and the balance of the fixed assets accounts from the estimated accounting balance sheet.

The budget of the treasury activities represents a projection of the revenues and payments of cash resources for the future and has two main purposes: it provides the final balance of the cash resources which is necessary in order to draw up the estimated accounting balance sheet, and it shows when gluts of money or gaps of cash resources are recorded. The estimated results account follows the accounting principles and it regroups the expenses and the revenues according to their nature, thus influencing the estimated accounting result. The estimated accounting balance sheet includes the results of all the other documents presented. A synthesis of the budgetary system can be read below:

In the companies' overall competitive environment, the budgetary system has an extremely important role as the economic efficiency of the organization's activity depends on it. The management cannot have a clear image of the company's financial evolution unless they have a perfectly coordinated budgetary system.

Fixed budgets have certain limits when it comes to comparing results because the volume of activities might vary. Consequently, flexible budgets have been introduced. They allow the company's current activities to be monitored. A flexible budget, as opposed to a fixed budget, presents the budgeted cost levels for the current activity's level. The flexible budgets offer the possibility of estimating the costs for a larger number of relevant levels of activity. These estimations are presented as scenarios of evolution. The budgets' drawing up and control are a clear necessity, regardless of the size of the company as its efficiency and proper functioning are dependent on them. In other words, the budgets are the management's most important tools with which they can measure the firm's performances.

The budgetary control is conducted monthly and it answers two objectives:

- it identifies the favorable or unfavorable deviations from the budgetary stipulations by performing the budgets' execution control; in this case the management control deals with past events;
- it readjusts the budgetary estimations and it imposes corrective measures; in this case the management control deals with future events.

Conclusion

The standard costs' system is a result of the attempts to establish a standard of value in relation to whom each performance might be measured. The cost control is carried out at the same time with the deviations' establishing and this helps the manager take efficient and rapid decisions.

The mission of the budgetary control is to identify and to explain the deviations from the budgets' stipulations. The analysis of the deviations is complemented by a combination between the firm's management – an example is represented by the management by exceptions (the control of the deviations that surpass a certain level is one of the attributions of the manager) – and management by responsibility – in this case some employees must take full responsibility for certain deviations from the budgets.

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The role of the accounting normalization and harmonization in the context of an accounting communication

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Abstract

Providing a common accounting language has become not only a topic of discussion in international accounting circles and international business, but also a necessity manifested with increasing intensity, particularly in the European Union. In an attempt to ensure access to accounting information provided to all users of financial accounting information at EU level and globally, is absolutely necessary especially an accounting normalization, harmonization generally applicable financial statements, which are Moreover, the main source of financial and accounting information of international interest.

Keywords: contabilitate, armonizare, normalizare, IAS, IFRS.

Introduction

An economic entity may carry on activities abroad: it may perform transactions in foreign currencies or it may have foreign operations. To include foreign currency transactions and foreign operations in the financial statements of an entity, transactions must be

expressed in its reporting currency and the financial statements of foreign operations must also be converted in its reporting currency (R. Balun, 2012). Thus, the annual financial statements must be prepared in an internationally accepted format, but more importantly it must provide data that understand and meet the interests of foreign business partners.

The global economic boom registered in the last decades, the development of international financial markets, the increase of the number of multinational companies are just some of the causes that led to the increased need for training and use of a common international accounting language because “this language has often proved insufficient or inconsistent with accounting language belonging to other cultures” (A. Breuer (Șofican), 2009). In other words, the language of accounting, due to the global economic context should provide minimum information necessary for understanding and interpreting data of common interest, all the more so as it “became an instrument of distribution of wealth among individuals and social groups” (I.P. Pantea, Gh. Bode, 2005, page 17).

The accounting harmonization and normalization issue was and still is a debated topic in the literature, there are some studies that approached this issue from different points of view: economic, accounting and even political, considering that political actors (government and parliament) have a significant role in setting accounting regulations. In this respect we mention studies that have analyzed the issue of accounting harmonization from a historical point of view (Zeff, 1993, 2002, 2005 and 2012), from an empiric point of view (Bertomeu and Magee, 2011) or from an analytical point of view (Johnston and Jones, 2006; Ramanna, 2008). (D. Windisch, 2012)

Accounting normalization and harmonization

Since early 2000 we started the effort to create a single set of accounting standards. The first step in providing a common language for entities operating in the financial markets and international capital, was the start of the accounting normalization, process which primarily aimed “defining the concepts, principles and accounting rules based on a precise terminology identical for all producers and users of accounting information and their application in practice in order to ensure the comparability in time and space, the relevance and credibility of accounting information”(A.Ștefănescu, 2005, page 31).

Precisely because there was a true “arsenal of power and economic interests” on the financial and capital markets in the recent decades (L. Cernusca, 2004, page 13), against the intensification of efforts of the main bodies involved in developing and implementing a “universally understood accounting language” (D. Stephen O. Spătăcean, M. Bogdan, M. Nandra, 2006), occurred the need for the international accounting harmonization process. If we refer to the etymological meaning of the word “harmonization” as defined in the Explanatory Dictionary of the Romanian language, i.e. harmonization is “the act of putting in harmony”, “to make something be or not to be in harmony” (Dictionary Analysis of the Romanian language), and considering that we are talking about accounting harmonization, we conclude that accounting harmonization is the process of establishing a common framework to which subscribe all the efforts of the national and international accounting standardization and regulation bodies in order to achieve a set of standards for financial-accounting reporting.

Normalization and accounting harmonization should not be seen and interpreted separately and singularly as two different processes, but as a whole between them existing relations of intercondiționalitate and mutual coordination. First, both processes have the same goal: getting a common international accounting language. Then, the normalization process is performed on two levels, one national through the involvement of national bodies, and one international, involving representatives from different countries, normalization that ignores the national character of any given country or the socio – political aspects of the countries participating to the development of standards. The international accounting standardization would not be possible without the accounting harmonization process, which, unlike the normalization notion, cannot be divided through the national - regional – international report. For a better understanding of the relation between the two processes we should not forget that the international accounting harmonization leads to the improvement of national rules and standards, often differing from one country to another, to make them comparable.

The fundamental purposes pursued by the normalization process are (L. Feleaga, N. Feleaga, 2008, page 174):

- determining the terminology and general accounting principles;

- defining the information presented in the financial statements and the presentation of such information;
- developing a chart of accounts and accounting outline of the various operations.

Another concept found in the literature on the problem of finding a common language in the financial accounting field is the accounting convergence, which often is defined by reference to IAS, IFRS and U.S. GAPP. The term convergence is used to express both the objective (single set of high quality international accounting standards) and the used routes (improvement of IFRS considering the U.S. GAPP stipulations and the removal of differences).

Reference points in the international accounting normalization and harmonization

Although it differs from country to country, and bears the socio-political national imprint, the normalization and accounting regulation device is defined by the following elements” (M. Ristea, CG Davies, C. Ioanăș, A. Irimescu, 2009, page 12):

- accounting or conceptual framework;
- accounting norms and standards network;
- accounting regulatory system;
- general account plan and the accounting schedule of the economic and financial operations.

The first dimension of international accounting standardization took place in the European Union, the main body involved in the development of the general accounting framework being the Commission for the development of international accounting standards, (IASB), which was created in 1973 and brings together 143 professional accountancy organizations from 104 countries, aiming the development and publication of the International Accounting Standards referring to the presentation of the financial statements as well as ensuring their acceptance and application worldwide. Although these standards are not mandatory, they exert a strong influence on national accounting practices and regulations. The general framework refers to the preparation and presentation of financial statements with general purpose, elaborated and presented at least annually.

A special role in terms of accounting harmonization at European level had the Fourth and the Seventh Directives. *The Fourth Directive - was issued by the Council of Ministers on 25*

July 1978 and published in the Official Journal no. 1222, 14/08/78 page 0011, based on Article 54 (3) (g) of the Treaty of Rome, being a compromise between the legislative approach of financial reporting and the recognition of the fair view primacy.

The most important amendments included the Fourth Directive are (L. Feleagă, N. Feleagă, 2007, page 331):

- the right awarded to the Member States to use the evaluation methods that consider the effects of inflation;
- the conditions that allow small businesses to be exempted from costly rules concerning disclosure and financial statements.

The most important stipulation of this Directive is contained in Article 2 (A.Ștefănescu, 2005, page 41), where the structure of financial statements is presented: the balance sheet, the income statement and the appendix. Article 2 also provides the main objective of harmonization, namely that the financial statements must provide a fair view of the assets, the financial position and the results of companies. The same article stipulates that in order to achieve the main objective, it is necessary for companies to submit additional information as provided by the Directive, or in exceptional cases to derogate from certain details of the directive, in which case intervenes the appendix of the financial statements, where additional information will be presented.

Directive IV - also provides the evaluation rules referring to the historical cost convention, the replacement value, ie the revaluation. Given the financial globalization and the development of international accounting standards, following the adoption of this Directive, the European device incorporated a new section which provides an evaluation based on fair value.

„Currently, the stipulations of the Fourth Directive are applied throughout the European Union and even in other countries that are not EU members but who hope to join it” (C. Ionescu, 2003, page 169 - 170). The *Seventh Directive* - adopted in 1983 - it includes 51 articles, the text itself is preceded by 9 “reasons” that specify its objectives, aiming the consolidated accounts, i.e. the financial statements, presented and published by groups of companies.

The groups of companies, formed around a company that ensures their management, bring together legally independent

companies but closely linked together by shareholding and contractual relationships.

At the global economy level, the groups of companies have increasingly evolved in number and size, which led to the emergence of some regulations, especially as they represent a special category of economic entities.

Only the accounts elaborated by the so-called mother-company may not provide sufficient information, hence the need for accounts that reflect an overview of the activities and progress of a group, called consolidated accounts.

The Seventh Directive contains 6 sections (A.Ştefănescu, 2005, page 46): conditions for drawing up consolidated accounts; modes of elaborating the consolidated accounts, the consolidated management report, the consolidated accounts control, transitory directives, final directives.

The Member States shall require from any undertaking an obligation to draw up consolidated accounts and a consolidated annual report if the economic entity (economic entity subsidiary):

The conditions of elaborating the consolidated accounts are set out, in particular, in the first article of the directive, which stipulates (C. Ionescu, 2003, page 177):

The Member States shall require from any undertaking an obligation to draw up consolidated accounts and a consolidated annual report if the economic entity (economic entity parent):

- a) has the majority of voting rights of shareholders and members of an enterprise (economic entity subsidiary);
- b) has the right to appoint and dismiss most of the members of the administrative, management and control body of an enterprise (economic entity subsidiary) and is at the same time, shareholder or associate of the company;
- c) has the right to exercise a dominant influence over another enterprise (the subsidiary economic entity) to which it is a shareholder or associate, by reason of a closed contract or of a clause in its regulations;
- d) is the shareholder or the associate of an enterprise and: if most of the members of the administrative, management and control body of the company (subsidiary), operating during the current year and prior to the elaboration of consolidated accounts, have been appointed only by the effect of the exercise of voting rights; if it controls alone, pursuant to an

agreement with other shareholders or members of that enterprise (subsidiary), the majority of voting rights of the shareholders or affiliates.

The Member States may require the elaboration of consolidated accounts and a consolidated annual report, when the economic entity (parent economic entity) holds an interest, as in Article 17 of the Fourth Directive (percentage not exceeding 20 %), in another economic entity (subsidiary) and:

- a) if it actually exercises a dominant influence over it, or
- b) when itself and the economic entity subsidiary are placed under its single leadership.

The Seventh Directive also deals with cases of exemption from consolidation, cases of small enterprises and cases of subsidiary elimination.

The convergence IAS - IFRS - Accounting convergence concept emerged in 2001, once with the objectives of the International Accounting Standards Board (IASB), the main objective being: "to work in an active way with national bodies of standards regulations in order to identify quality solutions for the convergence of national accounting standards with the standards issued by IASB" (A. Pop, 2004).

The new independent body, the International Accounting Standards Board (IASB), preceded the International Accounting Standards Committee, and has as main objective the development of accounting standards that are applicable worldwide. These standards are called International Financial Reporting Standards (IFRS) and the interpretations issued by the Committee on International Financial Reporting Interpretations (IFRIC) bears the name of IFRIC Interpretations. Since the development of standards until present IAS and SIC have undergone a series of changes concerning, on the one hand the reduction of the accounting treatment options and, on the other hand, changes that enrich the existing accounting treatment. So far eight IFRSs, 16 IFRIC and 11 IAS were developed (IFRS official rules issued from 1 January 2009).

The need for the review and modernization of the Accounting Directives primarily emerged from the fact that in terms of standards fund, they have not been changed since their adoption, although the admitted accounting practices have evolved considerably. The first review focused on modernizing and updating the EU accounting texts, and was achieved through the adoption of Directive 2003/51/EC of the

European Parliament and of the Council of the European Union. Secondly, the need to ensure equality of data processing by companies that apply or not the IFRS regulations, led to the elimination of incompatibilities with IFRS standards.

The IAS and IFRS philosophy is to provide a general guide, easy to understand and use, which is based on principles leaving more room to professional judgment. In some countries the International Accounting Standards are applied as they are issued by the IASC / IASB. Other countries national standards are developed in the spirit of IAS / IFRS. Finally, there are countries where the normalized body publishes the international standard as well as the national one. The national standard prevails (R.Petriş, 2009).

IFRS standards developed since the beginning of 2005, are used today in 115 countries being mandatory for businesses in Europe, and a new wave of adoption of standards is produced in countries such as Brazil, Korea, Canada, Japan and Malaysia.

The convergence U.S. GAPP - IFRS, although developed by the IASB IFRS regarded as a direct result of the convergence project, however there are some differences (Stefania Maria Cristea, 2007):

- differences in the choice IAS 1 (Presentation of annual financial statements) on the financial statements compared to the previous year;
- differences for IASB to develop a proposal on the debt refinancing of IAS 1 (Presentation of annual financial statements);
- differences for which IASB develops a proposal to FASB on IAS 17 (Leasing contracts) relating to leasing operations;
- differences in FASB recommendation to address the IASB (IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, referring to accounting policies);
- differences for which IASB recommends the FASB approach, as in IAS 12 (Income Taxes), regarding the classification of deferred taxes;
- differences occurred after the convergence process regarding the revision of IAS 39 (Financial Instruments: Recognition and Evaluation) regarding options at fair value;
- differences for which FASB elaborates a proposal to IASB, regarding the refund debts, from IAS 1 (presentation of annual financial statements).

Regarding the adoption of IFRS by the United States a series of studies have been conducted that highlight the economic consequences and the effects on users of accounting information. Thus most studies conducted in this regard stress out that adopting IFRS would improve the quality of reporting in the U.S., considering the set of US GAPP stipulations that „is a set of high quality standard” (L. Hail, Ch.Leuze, P. Wysocki, 2009).

The convergence between IFRS and U.S. GAPP is not an easy process to do, due to a number of factors (including accounts by taxing its politicization, fighting between U.S. representatives want to impose regulations require U.S. GAPP and EU representatives who try to customize standards issued by IASB), the success of this process depends on IFRS recognition worldwide.

Conclusions

Financial accounting represents an area of interest ever since the appearance of the first forms of trade, especially in the context of globalization.

Today, accounting faces a deep harmonization process determined by the types of economic relations based on movements of capital on international capital markets (globalization). The purpose of accounting globalization is to transform the accounting system in a business and financial model, to inform the users of accounting information as accurately and quickly as possible. We can see the new facets of accounting information in the current economic relations; they must satisfy a number of categories of users participating in the economic stream. This challenge, i.e, minimizing the differences between the national regulations and creating a common language for all companies in the world can be found in the basic principles of IAS and IFRS, underlining the need for normalization, convergence and harmonization of accounting information, phenomena that have a significant influence on the future of accounting.

Globalization in accounting involves finding a common language of communication. In our opinion, finding a common language of communication would require the national normalization and regulation bodies in the financial accounting field, to develop their own standards based on the principles set out in IAS and IFRS corresponding to the needs but especially to the Romanian economy.

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The concession contract of public goods

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Abstract

The paper aims at presenting the concession contract of public goods - the concept, legislative regulations, object and its particularities. It is a common contract in the public administration, therefore is important to be aware of both the objects and parts of the contract and how it is awarded. The royalty obtained from the contracts is an income for the state budget.

Keywords: concession contract, royalty, concessionaire, grantee, auction, free negotiating

Concept and features of the concession contract of public goods

The legal document that governs the concession of public goods is the Government Emergency Ordinance no. 54 of 28th of June 2006 on the concession of public assets, approved with amendments by Law no. 22/2007. The need to adopt this regulation results from the full compatibility of the national legislation on concessions with UE practice regulations.

According to GEO no. 54/2006 regarding the concession of public assets, art.1 para.2, the concession of public assets, called concession contract, is the contract concluded in writing by a public authority called the grantor; for a specified period through which a person named concessionaire shall act at the risk and responsibility, right and obligation for the exploitation of public property in exchange for a fee.

According to art.2 of Ordinance no. 54/2006, the provisions of this regulation shall not apply to contracts covered by the Government

Emergency Ordinance no. 34/2006 regarding the award of public procurement contracts, public works concession contracts and services concession. In a contract award which falls under the Emergency Ordinance no. 34/2006, the execution means necessarily the exploitation of public property, the right to exploit the good that is transmitted within and the procedure for the award of the contract in question.

In the legal doctrine, concession was defined as a public service management through which a public authority (the grantor) charges an individual (citizen or company) through an agreement with it to perform public service at the expense and risk of the latter, who had received compensation from fees charged to users (beneficiaries).

The concession contract marked its place in public law as an administrative contract or an embodiment of the field management of public goods, public services or public works. The legal institution of public law - administrative law has been and is the subject of study, though an analysis is justified to know the dimensions and implications of the administrative contracts in the society and, on this basis, to establish the effective actions and measures used by this type of contracts, in administration.

The concession contract is typical for the administrative law, and has no correspondent or similarity in the private law. The concessions can be only administrative, as they are not restricted to any lease of goods or services or to the sale of goods, but have a different focus: the obligation undertaken by the operator to operate an asset, an activity or a public service through their technical and financial means, the risk of the remuneration received in form of taxes.

As noted, the provisions of the concession agreement are contained in the Government Emergency Ordinance no. 54/2006 on the regime of concessions of public assets, approved with amendments by Law no. 22/2007 and Government Decision no. 168/2007 approving the Methodological Norms for the application of the Governments Emergency Ordinance no. 54/2006 regarding the concession of public assets.

Characteristics of the concession contract, resulting from the legal definition, are:

- is a contract for consideration, as each side seeks an advantage from the contract, the grantor giving a public service and getting a fee, while the dealer seeks the profit;

- one of the parties – the grantor, is always a public authority, as only this can have public goods and the other part, namely the concessionaire, is an individual who may be a natural person or a legal person of private law;
- the contract is "intuitu personae" as, in view of the concessionaire person, he may be replaced by another person without the consent of grantor;
- it is a solemn agreement as written form is required by law as a condition "ad validitatem" of the contract;
- it has a fixed term of not more than 49 years as a good or a public heritage can not be definitively unavailable;
- the contract is commutative, i.e. the extent of each party benefits is uncertain and can be considered even when concluding the contract;
- it is a contract with successive execution in the form of further benefits.

According to Art. 13 of the Government Ordinance no. 54/2006, the principles underlying the award of concession contracts are:

- Transparency - providing information to all those interested in the procedure for awarding the concession;
- Equal treatment - application in a non-discriminatory manner by the public authority of the criteria for awarding the concession;
- Proportionality - requires that any public authority established to be necessary and appropriate to the nature of the contract;
- Discrimination - applying the same rules to the public authority, irrespective of the nationality of the procedure for awarding the concession, subject to the conditions contained in agreements and conventions to which Romania is a party;
- Free competition - the public authority provides that any conditions for participating in the tender procedure are allowed to become a concessionaire under the law of international conventions and agreements to which Romania is a party.

Concession contract is concluded in accordance with the Romanian law, regardless of nationality or citizenship lessee, for a period not to exceed 49 years from the date of signing. The concession period is determined by the grantor. Concession contract can be extended for a period equal to more than half of its original length, by mutual agreement of the parties. Another concession is prohibited, except as expressly provided by GEO no. 54/2006.

Object and parties of the concession contract

According to the regulations in this field, the assets/subject of a concession contract is public property or administrative units, according to the Constitution and legal regulations on public property.

In this respect there are art. 136 para. 4 of the Constitution revised in 2003, under which public ownership and state administration may be exercised either by putting the property in the management of autonomous administrations or public institutions, either through leasing or renting them.

Obtaining the concession fee revenue for the state budget and local budgets is appropriate. The calculation and payment of the fee is determined by the ministries or other bodies of central government or by local authorities. The fee is the amount of money that the operator pays the grantor in exchange for the right to operate a public good. It is a part of the profits from the grantee and is determined by the parties when the contract is drawn. The calculation and how to pay the fee are set by the grantor. According to art.4. (1) of GEO no. 54/2006, the concession fee revenue for the state budget and local budgets is obtained according to the property subject to concession.

According to art.5 of GEO. no. 54/2006, grantor can be a State, a county, a town or village:

- Ministries or other bodies of central public administration of public property assets;
- County councils, local councils, the General Council of Bucharest Municipality or local public institutions from counties, towns or villages.

In the quality of concessionaire can be any natural or legal person, Romanian or a foreigner (art. 6 of GEO no. 54/2006). To any concession contract concessionaire, a foreign legal entity, will be applied the Romanian law, motivated by the quality of public law corporation - as grantor, and the fact that the concession is only in the public state property, county, town or village, or public service activities of national or local interest. In other words, the parties of these contracts are, in fact, the state respectively the administrative units that are represented by competent public authorities. Therefore, the conclusion of concession contracts lies on the liability of public authorities undertaken by the state and respectively administrative units. Moreover, local and county councils, having legal personality, do not respond in patrimonial disputes arising from the conclusion or performance of the

concession contract. The plaintiff is forced to sue administrative-territorial unit in whose name the contract was concluded to be required to pay compensation in the event of court action admission. This conclusion applies as only administrative units have legal personality, have their own assets and have full legal capacity

Accordingly, parties to a dispute arising from a concession contract will be the Romanian state through public authority which acts as conceding the disputed contract, the grantor is the representative (agent)'s legal status. In this sense is art.25. (1) of Decree no. 31/1954, under which the state is a legal entity able to participate directly in its own name as the subject of rights and obligations.

The State participates in civil legal relations through the Ministry of Economy and Finance, but public legal body is the public authority under special laws, such as the legal relations arising from the concession. Therefore, in disputes regarding ownership of property in the public domain, the state is represented by the Ministry of Economy and Finance and by administrative units of county and local councils (who give written mandate, in each case, to Chairman of the Board - the county mayor). In disputes arising from the conclusion and implementation of concession contracts, the state and administrative-territorial units are represented by public authorities who granted these contracts.

Provisions of art.5.1 of GEO no. 54/2006, which refers to the quality of conceding administrative concession contracts should be reported and correlated with art.12 of Law no. 213/1998 on public property and its legal status. Thus, to conclude the concession of an asset, the grantor must be the owner of the property, based on the decision of the Government, the county council or local board, as appropriate.

This conclusion results from art.12. para. 3 of Law no. 213/1998, under which the owner of the administration may possess, use and dispose of its goods, giving the instrument by which the property was given in trust.

Although public property can be managed as autonomous administrations and authorities (public institutions), only the latter can act as the grantor, i.e. concession may be contracted according to art.5. 1 of GEO no. 54/2006. This administrative measure is necessary and logical, as there may be exercised at the same time, the attributes of

ownership of property by two people (a body, as the holder of the right of administration and a private legal person, as operator).

To conclude a concession contract is necessary to have full legal capacity to both parties. Grantor fulfills this condition because, by law, both state and administrative-territorial units have legal capacity. To be concessionaire, individual must be adult and not have altered judgment; the legal entity must be established legally and have a capacity to use the specialized object of the concession.

Conditions and the effects of closure of the concession contract

According to the legal framework, concession grant takes place at the initiative or following a proposal endorsed by a public authority. Concession proposal must be based on economic, financial, social and environmental issues.

Concession initiative must be based on a study opportunity, which includes the following main elements:

- Describing and identifying the property to be leased;
- Reasons of an economic, financial, social and environmental point of view, justifying the concession;
- The minimum fee;
- The procedure used to award the concession contract and the rationale for selection procedure;
- The estimated time of the concession;
- Predictable terms for the concession procedure;
- The approval of the Central State Office for Special Affairs and the General Staff of the concession object classification in national defense infrastructure, as appropriate;
- The approval of the management structure/custodian protected area, if the concessioned property is located within a protected natural area or territorial authority responsible for the environmental protection.

The grantor must, within 30 days of the acquisition of the concession proposal made by the person concerned, to proceed to the trial preparation of the study of opportunity.

In cases where the public authority does not have the organizational and technical capacity to develop opportunity studies, he can use the services of specialized consultants

To the extent that, after compiling, the opportunity study indicates that the property will be subject to exploitation by concession,

necessarily involved in the execution of works and/or provision of services, the grantor shall, depending on the purpose and activities, to qualify the nature of the contract according to GEO no. 34/2006.

Opportunity study is approved by the grantor and the lease is approved by a decision of the Government, local councils, county or Bucharest General Council, as appropriate. Under opportunity study, grantor of the concession develops specifications

According to art. 14 of O.U.G. no. 54/2006, the procedures for the award of the concession contract are:

- Auction - the procedure in which a natural or legal person shall be entitled to submit a tender (art.14, lit. A, amended by Law no. 22/2007);
- Direct negotiation - the process through which the grantor negotiates contract terms, including royalty, with one or more participants in the procedure for awarding the concession.

The grantor is obliged to award the concession contract, usually by auction procedure. Notwithstanding other provisions of GEO no. 54/2006, the grantor is required to ensure the protection of that information communicated to the persons or bodies in confidence, to the extent that, objectively, the relevant disclosure would prejudice the legitimate interests of those persons, especially regarding trade secrets and intellectual property.

The grantor shall specify in the tender documents any requirements, criteria, rules and other information needed to provide comprehensive information bidder, fair and explicit on how to apply the award procedure (Article 17 of Ordinance no. 54/2006). The grantor has the right to impose the tender documents, to the extent that they are compatible with the contract, special conditions of contract fulfillment which seeks social effects or relating to the environment and promoting sustainable development. The person concerned has the right to submit a request for participation in the award of the concession contract.

The grantor shall provide tender documents by the person concerned, who shall submit a request to do so. He has the right to choose one of the following ways to obtain tender documents from the stakeholders:

- Ensure direct access, unrestricted and fully electronic, the content of tender documentation;
- Providing interested person who has submitted a request for a copy of this tender documentation, in paper and/or on magnetic media.

Regarding auction, the grantor shall publish the notice of the procedure in the Official Gazette of Romania, Part VI, in a national daily newspaper and in one locally circulation newspaper. Information that must be included in the tender notice is provided in the terms of this law. Tender notice is sent for publication at least 20 calendar days before the deadline for submission of tenders. If the person concerned has submitted a request for a copy of the tender documentation, in paper and/or on magnetic media, the grantor's obligation is to make tender documentation available to the person concerned as soon as possible, within a period not to exceed 4 working days of receiving the request.

The interested party has the obligation to make reasonable efforts to comply with the statutory period and not to lead to a situation where the tender documentation is made available at more than 4 working days before the deadline for submission tenders.

However, the person concerned has the right to request clarifications on the tender documentation. In this respect, the grantor is required to respond clearly, completely and unambiguously to any clarification required, within a period not to exceed 4 working days of receipt of such request. Also, the grantor is required to provide the answers accompanied by questions related to all interested persons who have obtained, under present law, the tender documentation, taking measures to conceal the identity of the requested clarifications.

The grantor has the obligation to answer at any clarification send at least 4 working days before the deadline for submission of tenders. If the clarification request was not submitted in time, thus grantor is unable to meet the deadline set by law.

Tender procedure may take place only if the publication of the notice is followed by at least 3 offers. If, after publication of the notice there are not at least three valid offers, the grantor is obliged to cancel the procedure and organize a new tender.

With regard to the direct negotiation the law states that, according to art. 26 of GEO no. 54/29006, the grantor has the right to apply the negotiation procedure only if, after a repeated tender procedure there was not made at least 3 offers available. Direct negotiation notice is sent for publication at least 10 calendar days before the deadline for submission of tenders.

Rules on offer are set out in art. 32-34 of GEO. 54/2006, as follows:

- The tenderer is required to prepare the offer in accordance with tender documents;
- The tenderer has the obligation to submit the tender in accordance with the detailed procedures;
- Binding offer, in terms of content, the entire period of validity established by conceding;
- The person concerned has the obligation to submit the tender at the address and by the deadline for submission set out in the notice procedure.

Delivery transmission risks, including major force is direct on the person concerned. Offer submitted to an address other than the grantor established or after the deadline for submission shall be returned unopened. Tenders content must remain confidential until the date set for the opening thereof, the grantor will take note of the content of tenders only after that date.

According to art.36 of GEO no. 54/2006, the criteria for awarding the concession contract is the highest level of fee. The grantor may take into account other criteria such as: the economic and financial capacity of tenderers; the environmental protection; the specific conditions resulting from the nature of the property leased.

The grantor has the obligation to determine the winning bid based on the criteria/award criteria set out in the tender documentation. During the implementation of the tender procedure, the grantor has the right to request clarification and, if necessary, amendments to the documents submitted by bidders, in order to demonstrate compliance with the requirements. The grantor is not entitled to use the requested clarifications or additions to result in a clear benefit in favor of a bidder. He must conclude a concession contract with the bidder whose bid has been declared winner.

However, the grantor shall inform tenderers on the decisions regarding the award of the concession contract in writing with return receipt requested, not later than in 3 working days from the issuance thereof. In its Communication the grantor has the obligation to inform the bidder/bidders/winners on acceptance of the offer/tenders submitted, and must inform tenderers who have been rejected or whose tender was declared winner on the reasons the decision is based on.

The grantor is entitled to cancel the procedure for awarding the concession, if this decision is before the transmission of the communication regarding the result of the tendering procedure and,

anyway, before concluding the contract, only in the conditions provided by law.

Failure to conclude a concession contract within 20 days from the expiration date provided by law may result in payment of damages by the party at fault. Tenderer's refusal to conclude the concession contract may entail payment of damages.

According to art.51 of GEO no. 54/2006, the concession contract includes clauses in the specifications and provisions agreed by the contracting parties, in addition to the specification and objectives set out in the specification.

The concession contract shall prohibit the grantee to create another concession, in whole or in part, to another subject of the concession, unless the sub-concessions is explicitly allowed.

The concession contract will include clauses on the division of responsibilities between the grantor to the grantee.

The concession contract must separately specify the categories of goods to be used by the concessionaire in running the concession, namely: return goods incumbent of right, free and unencumbered upon termination of the concession grantor; own property upon termination of the lease that remains the property of the concessionaire.

The grantor may change unilaterally the regulations of the concession contract, with prior notice to the lessee, for exceptional reasons related to national or local interest, as appropriate. If unilateral modification to the contract brings injury, the concessionaire is entitled to receive fair compensation without delay. In case of disagreement between the grantor and the grantee on the amount of compensation, it will be determined by the competent court. This disagreement cannot, under any circumstances, allow the concessionaire not to perform its contractual obligations.

Contractual relationship between the grantor and the operator is based on the financial balance of the concession of rights which are granted to the concessionaire and the obligations imposed. The concessionaire will be required to bear the new burdens related to the implementation of its obligations, if such increase results from:

- A measure taken by a public authority;
- A case of major force or unforeseeable circumstances.

Concessionaire must perform his obligations under the terms and conditions set out in the concession contract and in accordance with the legal provisions specific to the leased asset. The grantor has the right to

check in the period of the contract how its terms are met by the concessionaire. The concessionaire must, not later than 90 days from the date of signing the concession, deposit as security, a fixed amount representing a share of the amount of obligation to the grantor due to the first year of operation. From this amount is deducted, if any, penalties and other amounts owed by the grantor in the concession contract. Concessionaire can have collateral debt securities, which will be put in pledge with the grantor.

A concession is finished in the following situations:

- Within the time established in the concession contract;
- For non-contractual obligations of the concessionaire, the termination by the grantor with payment of compensation from the lessee;
- For non-contractual obligations of the grantor, the termination of the concession with the payment of compensation to the concessionaire;
- The appearance of a case of major force, the disappearance of the leased asset or the inability of the concessionaire to exploit targets, by renunciation, without payment of compensations.

At the end of the concession contract, the concessionaire must return, with full title and free of any charge, the property leased. The concession contract will be drawn in Romanian, in two copies, one for each party. If the tenderer is of another nationality than a Romanian one and if the parties consider necessary, the concession contract will be concluded in four copies, two in Romanian and two in another language chosen by them. In this case, each party will have a copy in Romanian and one copy in the foreign language in which the contract was written. In case of dispute, the Romanian copies of the contract prevail.

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Legea nr. 213/1998 privind proprietatea publică și regimul juridic al acesteia

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