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INFLUENCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON AN ENTITY'S FINANCIAL STATUS AND PERFORMANCE

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Abstract: *International Financial Reporting Standards - IFRS aim at harmonizing accounting principles, procedures and treatments used for the preparation and presentation of annual financial statements in order to meet the information needs of all the social partners of an entity. In this article the authors intend to analyze some of the regulations included in a international accounting standard - IAS 2 "Stocks",- in order to assess how this application influences the presentation of a financial status and the level and method for measuring the performance of entities.*

Key words: *accounting regulations, IAS, financial status, performance, assets, impairment.*
JEL Classification: *M41.*

1. Introduction

International financial reporting standards (IFRS) aim at harmonizing entities' accounting principles, procedures and treatments of annual accounts.

The objective of financial reporting prescribed by IFRS is to provide accounting information about financial status, effects of transactions and other events that change the economic resources and performance of a reporting entity.

The paper herein is intended to analyze the regulations contained in international accounting standard - IAS 2 "Inventories", to see how its application affects the financial status, the level and measurement manner of economic entities'performance.

2. Content

Standard IAS 2 "Inventories" regulates the accounting treatment applicable to inventories under the principle of applying the historical cost principle. The standard provides guidance on the recognition of inventories' value on balance sheet date, determination of inventories' cost and recognition of inventory-related costs, considering any record at its net realizable value. Additionally, the standard provides guidance on the practical procedures for determining the cost of inventories.

According to IAS 2, inventories are elements of current assets which in terms of their intended destination meet at least one of the following conditions:

- are held for sale during the current activity of an entity;
- are currently being produced for subsequent sale;
- are raw materials, auxiliary materials which are intended for consumption in the production process or service rendering.

It results from this definition that standard IAS 2 does not apply to the following inventories:

- financial instruments handled by standard IAS 32 "Financial Instruments: Presentation and IFRS 9 Financial Instruments";
- biological assets related to agricultural activity and agricultural production at the time of harvesting treated by standard IAS 41 "Agriculture."

One can notice that: the definition includes a list of users, so the nature of elements is not sufficient to regard them as inventories; the standard does not specify an upper limit value or a maximum useful life.

This way of defining inventories is based on their destination rather than nature, and hence, depending on an entity's object of activity, the elements that are inventories to an entity may not be such to another.

If one uses the nature of inventories as a classification criterion, one can identify the following categories:

- goods stocks subject to marketing in exactly the same form in which they have been purchased. They are found mainly in the current assets of trade entities;
- raw material stocks that are used in the production of goods or in rendering services. They are found in entities whose object of activity are the production of goods or rendering services;
- finished product stocks resulting from the completion of the production process;
- goods or services in progress which are in one of the intermediate stages in the production process or service rendering and not yet completed.

As well as any assets, inventories are recognized when the recognition criteria under the Framework for the Preparation and Presentation of Financial Statements are met:

- it is possible for any economic benefit associated with an item to enter or exit from an entity;
- an item has a cost or value that can be reliably measured.

The first criterion refers to the uncertainty in achieving future economic benefits embodied in assets, representing the potential to contribute directly or indirectly in the cash flow and cash equivalents to an entity and the other criterion in assessing credibility.

Inventory assessment is done according to the rules of evaluation:

- in accordance with the accounting standards of our country laid down in Order of the Minister of Public Finance 1802/2014 "Order of the Minister of Public Finance for approval of accounting regulations on annual individual and consolidated financial statements";
- in accordance with international standards laid down in: IAS 2 "Inventories" and IAS 36 "Impairment of Assets".

Standard IAS 2 "Inventories" requires the measurement of inventories at the lower value between cost and net realizable value. The cost of inventories is made up of: acquisition cost; cost of conversion; other costs necessary to bring the inventories to the location and condition they are in.

1) The acquisition cost of inventories must include the purchase price; import duties and other taxes; shipping and handling costs; other costs directly attributable to the acquisition of finished goods, materials and services.

The cost of inventories is influenced by price discounts representing trade discounts which a supplier may provide under certain conditions.

The other category of discounts namely financial discounts are granted by a supplier to customers who have prepaid bills and it does not affect the cost of inventories.

Discounts are granted either at the time of invoicing goods or afterwards by a discount invoice. Discounts are given in the following order: trade discounts; financial discounts. From the commercial point of view, discounts are given in the following order: rebates; draws; drawbacks.

In terms of performance, relating a customer there is optimization of supplier relationships and/or operating with increased efficiency the same volume of financial resources for the acquisition of a high amount of inventories. At supplier level, there is increasing turnovers to the rise in freight volumes sold and/or on improving the flow of receipts related to the relationship with a specific client and/or strengthening contractual relationship with a client. Keeping the approach in terms of performance and referring to the Romanian accounting system, the authors intend to analyze the influences of IAS 2 regulations concerning discounts on inventories' reflection in accounting.

Trade discounts are not reported separately in accounting. The time of granting price cuts directly influences the amount of inventories reported in customer accounts and the sales related revenues made by the supplier. Trade discounts granted upon delivery of inventories and invoiced together will reduce the cost of inventories delivered so that they will be reported in customer accounts at an acquisition cost reduced by the trade discounts received. If there is subsequent granting of trade discounts, as applicable rebates, one will find that:

- in the supplier's accounts there is a decrease in revenue from the sale of goods;
- in the client's accounts there is a decrease in the acquisition cost of an inventory.

Unlike trade discounts, financial cuts, both granted when invoicing goods and those granted subsequently, are reported separately in accounting as expenses in the supplier's accounting, namely as financial revenues in the client's accounting.

Inventories are reported in the beneficiary's accounting at the acquisition cost undiminished by financial cuts which makes it possible that there are no variations in inventories caused by financial cuts.

2) Conversion cost includes direct costs related to units produced or services rendered (e.g., labour) and some indirect production costs, fixed and variable costs, due to the conversion of raw materials into finished products. Hence, one can deduce the mandatory inclusion in the inventory cost structure of part of fixed costs, consisting primarily of depreciation and production capacity maintenance costs. It results that the value of inventories cannot only be determined at the expense of variable costs, because it might not reflect reality and inventories could be undervalued.

The allocation of fixed production costs at conversion costs per unit of inventory is based on normal production capacity or average production capacity expected to be achieved over a number of financial years. Unit cost of production is influenced by the amount of units produced: the more production units are made, the less the unit cost of production becomes, since a part of it, namely fixed costs, is reduced by assigning a number of products; reciprocally, the less production volume is, the lower the unit cost is because fixed costs are borne by fewer product units made.

In practice, the inclusion of fixed costs in the cost of inventories is done during the periods when production volume remains below the level regarded as normal or average and therefore taken as the baseline, by weighting them with the result of comparing the actual production volume to average production volume. Via this method, one can get a unit cost of production independent of activity volume.

The method described above cannot be applied, however, in periods when the actual production volume exceeds the average production volume taken as reference for the IAS 2 standard requires inventories should not be valued at a cost superior to their size. Therefore, during these periods, inventories will be valued at their actual costs without resorting to the share of production costs according to the average volume of production.

3) Other costs are included in the cost of inventories only to the extent that they represent costs incurred in bringing the inventories to the form and place in which they are at present. For example, it may be appropriate to include in the cost of inventories the time-work and the cost of designing products for specific customers. The cost does not include: general administrative expenses; costs of disposal; losses of raw materials over the normally permitted limits; storage costs unless they are linked to production prior to passing into a new stage.

Inventory assessment based on their costs raises the question of forms of costing. The cost of inventories that are not ordinarily interchangeable and of goods or services produced and intended for separate orders shall be determined by specific identification of individual costs.

Specific identification cannot be used in cases where inventories include a large number of items that are ordinarily interchangeable. In these cases, the method to select those items that remain in inventories is the “first in-first out” (FIFO) or the method of weighted average method costing (WAC).

Alternative accounting treatment, namely the “last in, first-out” (LIFO) method is not permitted by the new version of IAS 2.

- The FIFO method assumes that inventories are consumed in the order of their establishment, that is the items coming first into the inventory are consumed first and the remaining products are those made or purchased last.
- The method of weighted average costing (WAC) calculated after each input (or before each output) or monthly. Weighted average costing takes into account all inputs in and all outputs from inventories.

$$WAC = \frac{\text{Amount of initial inventory} + \text{Amount of inputs}}{\text{Quantity of initial inventory} + \text{Incoming quantity}}$$

Amount of outputs = WAC x Outgoing quantity

Applying either of the assessment methods generates changes in the level of entity’s expenditures, and therefore influences performance and has tax implications. Additionally, the choice of either inventory assessment methods mentioned influences the amount held in current assets and the level of liquidity indicators.

Applying the IAS 2 standard allows influence over an entity’s performance at least in the following ways:

a) using either of the FIFO or WAC methods for assessing inventory outputs must be analyzed by rising prices and entity’s accounting policy as the same quantitative outputs assessed by different methods lead to different values of the accounting result and inventory size (different information in the balance sheet and income statement).

Price developments which may change from one input to another of the same inventory because of inflation or simply because of supply and demand make conventional methods possible to apply in the problem of assessing inventory outputs. Regarding several variants, an entity will choose the “best” method. The criteria underlying the determination of the assessment procedure of outgoing inventories, fiscal impact can be significant.

Example: In May the year N, an entity reports the following operations related to goods inventory:

- 01.05.N initial inventory of 100 kg x 30 lei/kg;
- 03.05.N purchase of 150 kg x 32 lei/kg;
- 15.05. N sale of 160 kg;
- 20.05.N purchase of 200 kg x 36 lei/kg;
- 21.05.N sale of 200 kg;
- 25.05.N purchase of 100 kg x 40 lei/kg;
- 28.05.N sale of 100 kg.

Table no.1. Incidence of various assessment methods upon inventories

Date	Transactions	FIRST IN-FIRST OUT METHOD (FIFO)			WEIGHTED AVERAGE COSTING METHOD (WAC)	
		INPUTS	OUTPUTS	FINAL INVENTORY	OUTPUTS	FINAL INVENTORY
1.05.N	Initial inventory	100 kg x 30lei/ kg = 3000 lei		100 kg x 30lei/ kg = 3000 lei		100 kg x 30lei/ kg = 3000 lei
3.05.N	Purchase	150 kg x 32 lei/kg = 4800 lei		100 kg 30lei/ kg = 3000 lei 150kg x 32 lei/kg = 4800 lei		250kgx31.2 lei/kg = 7800 lei
15.05. N	Sale		100kg x 30 lei/ kg = 3000 lei 60 kg x 32 lei/kg = 1920 lei	90 kg x32 lei/kg = 2880 lei	160kgx 31.2lei/kg = 4992 lei	90kg x 31.2 lei/kg = 2808 lei
20.05.N	Purchase	200 kg x 36 lei/kg = 7200 lei		90 kg x 32 lei/kg = 2880 lei 200 kg x 36 lei/kg = 7200 lei		290kgx34.51lei/kg = 10007,9 lei
21.05.N	Sale		90 kg x 32 lei/kg = 2880 lei 110 kg x 36 lei/kg = 3960 lei	90 kg x 36 lei/kg = 3240 lei	200kgx34.51lei/kg = 6902 lei	90kgx 34.51lei/kg = 3105.9 lei
25.05.N	Purchase	100 kg x 40 lei/kg = 4000 lei		90 kg x 36lei/kg = 3240 lei 100 kg x 40 lei/kg = 4000 lei		190kgx7.4lei/kg = 7106 lei
28.05.N	Sale		90 kg x 36 lei/kg = 3240 lei 10 kg x 40 lei/kg = 4000 lei	90 kg x 40lei/kg = 3600 lei	100kgx37.4lei/kg = 3740 lei	90kgx37.4lei/kg = 3366 lei
31.05.N	Final inventory			90kg x 40lei/kg = 3600 lei		90kgx37.4 lei/kg = 3366 lei

Table no. 2. Effects upon profit after adopting various inventory assessment methods

	FIFO	WAC
Sales	27.600	27.600
Initial inventory	3.000	3.000
Purchases	16.000	16.000
Final inventory	3.600	3.366
Cost of goods sold	15.400	15.634
Gross profit	12.200	11.966

Table no. 3. Comparative analysis of inventory assessment methods

Method	Advantages	Disadvantages
”first in-first out ”	- pursues physical movement of inventories; - inventory amount is current; - easy to calculate.	- prices can be over-assessed at certain times; - comparisons regarding various orders, activities, tasks are hard to perform;
”weighted average costing”	- levels profits; - easy to calculate; - allows comparisons.	- deformation of costs in certain periods; - result accuracy must be checked.

Usually, when out of an inventory or discharging from administration, there is a cost (or a reduction of income) with direct effects on the accounting result. From a tax perspective, the higher an expense is as per a given amount of inventories sold or rendered for consumption, the lower the profit and income tax will be. Thus, there is postponement of some of the tax burden. This reasoning leads one to believe that the best method is the one that allows assessment of inventory outputs at the highest value.

One believes this is the most important influence that the application of the IAS 2 standard has on the performance of an entity.

b) separation of direct and indirect expenses and distinction between production overheads and administrative expenses is subjective, since it depend snot only on the nature of the business, but also on correct accounting records. The manner of such allocation of overhead expenses and the way some of them are considered to be related to inventory items or conversely only to administrative expenditure is always questionable. In other words, they are likely to be distributed in a certain limit as administrative expenses which do not relate to building up inventories in the fixed costs associated with the production of such inventories. In this case, the entity’s performance is reduced in terms of production cost efficiency because they are inflated in order to obscure oversized administrative expenses. Therefore, the profit margin per unit is decreased unless trade price increases occur.

c) subjective assessment of the value of indirect fixed costs to be entered in the cost of inventories. There is in this case also the possibility of distorting the performance reported related to cost effectiveness, by over-assessing the cost of inventories. As in the previous case, the effect is to reduce the unit profit margin and artificially reduce fixed indirect costs.

d) keeping provisions at the minimum necessary level, where one aims to mirror the high result of a year or, conversely, reporting provisions abundantly to reduce earnings and lower income tax subsequent to the application of an overly cautious “professional judgment” about possible sales of slow moving inventories or about the possibility of trading them at prices above costs.

It clearly results regarding inventory assessment that an entity has some opportunities of embellishing its reported performance either improving it artificially, often at the cost of increasing the tax burden or decreasing it in order to hide administrative expenses and reduce income tax. The possibilities of handling non-economic results through accounting processing of inventories are limited in time, as in accounting there is the principle of acquisition of closing balances of accounts at the end of the previous year as opening balances at the beginning of the current year.

From the above, one can see that a high level of financial performance of economic entities requires inherent fiscal costs.

3. Conclusions

Applying international financial reporting standards by economic entities involves changes in the manner of recognition, measurement, impairment, etc., in structures of financial statements. Additionally, in the practice of various countries, depending on the relationship between accounting and taxation, such changes have fiscal implications.

In pursuit of objectives, the management of an entity must apply accounting policies so that their financial statements should comply with all provisions of each applicable international accounting standard and each applicable interpretation. In the absence of an explicit standard and an interpretation, entity management should appeal to professional judgment in view of developing an accounting policy that may lead to the most useful information to the users of financial information.

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FACTORS INFLUENCING STRATEGIES TO PROMOTE MOLDOVAN WINE ON THE NEW MARKETS

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Abstract: *In today's competitive business environment, coupled with the economics recession which has left many companies closed and some bankrupt, the organizations that survived the recession are now trying to pull their foot back to status quo. These organizations tend to increase or expand their business, and the only way this could be successful is for them to move from the highly competitive and saturated Western markets and explore new market and opportunities. It is against this background that Stratbull Leaders LTD in Republic of Moldova is trying to expand it sales volumes and profit margin by extending its product to a new market which is Africa (Nigeria). The paper aims to investigate factors that influence strategies to promote Moldovan wine on the Nigerian market.*

Keywords*: strategies, factors, Moldovan wine, markets.*
JEL Classification*: L1, F2, H32.*

1. Introduction

In today's competitive business environment, coupled with the economics recession which has left many companies closed and some bankrupt, the organizations that survived the recession are now trying to pull their foot back to status quo. These organizations tend to increase or expand their business, and the only way this could be successful is for them to move from the highly competitive and saturated Western markets and explore new market and opportunities. It is against this background that *Stratbull Leaders* LTD in Republic of Moldova is trying to expand it sales volumes and profit margin by extending its product to a new market which is Africa (Nigeria).

Considering the fact that doing business in Europe and other Western countries are different from doing business in Africa (Nigeria) as the former has an organized market with comprehensive customer information's, the later does not and this makes it difficult for Western companies to operate in the Nigeria market. Also while planning to do business in Nigeria; it is pertinent that a company views Nigeria from its diverse cultural perspective. Despite the fact that Nigeria is a country that shares same National Anthem, currency etc, it is a multicultural economy where different cultures do not have similarity. Since culture is people's way of life which influences their lifestyle, it means that doing business in Nigeria requires a survey on how to handle or manage different cultural background in Nigeria, as what is good in the South may not be good in the North. The result of the interviews with the 76 participants from wine suppliers in Lagos Island, Nigeria indicates that the common themes include human resources, management and market related factors.

2. Research Methodology

Focusing on last mile wine distribution, the study intends to investigate the last mile distribution practices for wine suppliers in Lagos Island, Nigeria. This research addresses to the following questions: what are the factors that influence the effectiveness of the last mile distribution function? what is the impact of a last mile distribution strategy on company performance? what factors are limiting the transportation of wine supply? what are the strategies employed to improve the effectiveness of last mile distribution? The main goal is to recommend appropriate improvement strategies for wine suppliers in Lagos Island, Nigeria, in order to minimize their last mile wine distribution challenges.

The mixed research method involves the use of both the quantitative and qualitative research method to complement each other in order to embark on a given research study.

3. The Human Resources Factors

50 of the 76 participants stated that most of the wine distributors in Lagos Nigeria have been able to take effective advantage of their human resources to improve the efficiency and effectiveness of their last mile distribution. Furthermore, 50 participants explained that they have also had to directly sell the wine products in a bid to facilitate door to-door-sales and to reach a significant number of local customers at their different locations. Figure 1 illustrates the results of human resources factors impacting last mile distribution.

The participants explained that they recorded improvements in their last mile distribution by employing several truck and van drivers to facilitate the faster movement of freight from terminals, ports, depots and wholesalers to retailers and finally to consumers. Considering that labor costs are generally relatively quite low in Nigeria, 50 participants in 2015 argued that the relatively low human resources costs have not only enabled them to reduce the final prices significantly, but also led to increased speed and efficiency in the delivery of their wine products to the final consumers, while in 2017 about 60 participants share this same opinion. This, along with Laseter et al.'s (2011) views, can be assumed to back the theories of distribution efficiency.

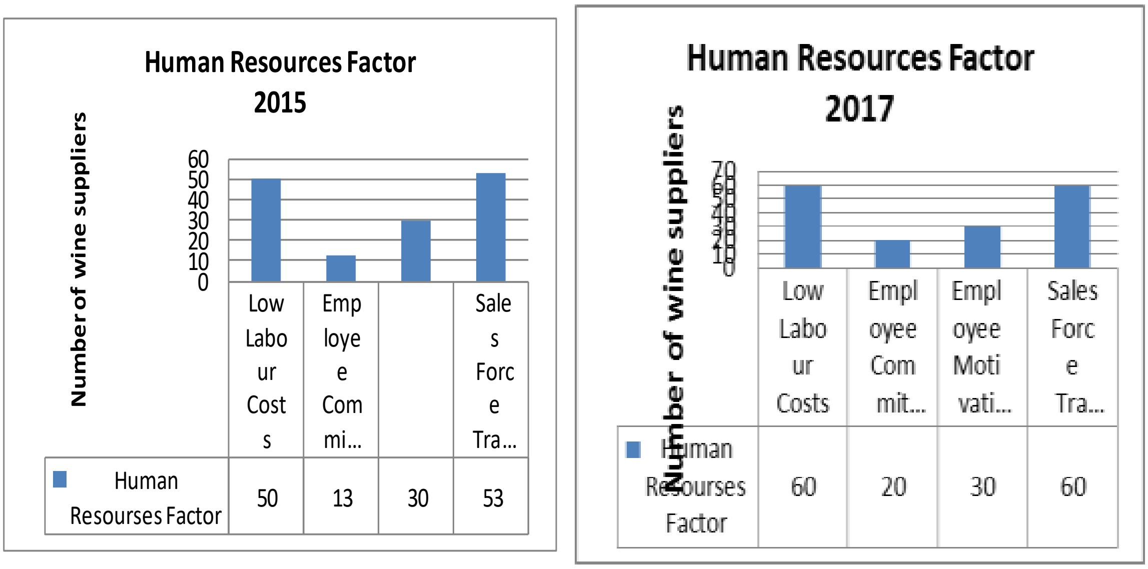

Figure 1. Human Resources Factors Impacting Last Mile Distribution Source
Source: researcher's own construct

In 2015, 13 of the participants noted that the commitment which has been demonstrated by most of their employees also made it possible for them to ensure that products reach the final consumers as fast as possible, while in 2017 about 20 participants share this same opinion. They explained that most of the employed drivers and off-loaders are quite willing to work overtime and night hours to ensure that products are delivered during the times when congestion and heavy traffic on the roads are minimal. In 2015, 30 respondents (illustrated in Figure 1) agreed that the levels of employee motivation have been significant in influencing the effectiveness of last mile distribution.

They stated that in addition to ensuring the efficient movement of freight, the commitment and motivation of employees have resulted in the development of good relationships with the customers.

30 participants noted that the development of good relationships has made it possible for transporters to build trust and manage customers' orders so that they are able to deliver goods after normal work hours, in the event of late deliveries, while in 2017 about 30 participants share this opinion which is the same as 2015. Figure 1 also shows that 53 participants noted that constant investment in training of the sales force has enhanced their skills and performance, while in 2017 about 60 participants share this same opinion. According to 60 of the participants, this made it possible for their salespeople to conclude sales quickly and ensure that significant amounts of products were sold to final consumers.

The overall analysis of the primary findings in this section would imply that human resources factors influence the effectiveness of the last mile distribution. In addition, other themes emerging from the analysis of the interview findings suggest that management-related factors also affect the effectiveness of last mile distribution.

3.1. The Management Factors. The analysis of participants revealed that the management-related factors that affect the effectiveness of the last mile distribution include management commitment, third party logistics providers, door-to-door couriers, partnership with customers, and location decisions during the establishments of depots. Figure 2 illustrates the management factors in last mile distribution. Regarding management commitment, 32 respondents explained that the achievement of an effective last mile distribution involved several factors including investments in trucks, storage facilities and constant research, evaluation and improvement in the general effectiveness of the last mile distribution. Most of the 32 participants explained that quite often, there is a tendency among Nigerian wine suppliers to think that the distribution merely involved a depot and supplying products to retailers. However, distributors who subscribed to such a management approach have been faced with challenges that include defection of drivers, and being outsold by competitors in better locations and those who significantly invested in the acquisition of more vans and trucks.

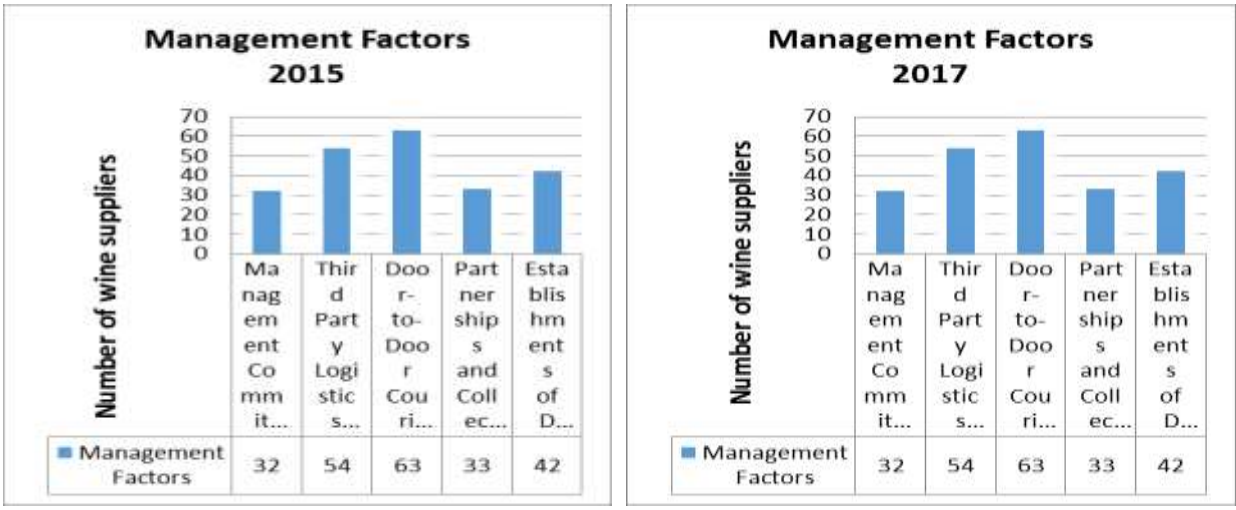

Figure 2. Management Factors in Last Mile Distribution
Source: researcher's own construct

In 2015, 32 participants explained that an effective last mile distribution network requires managers to demonstrate commitment that entails working overtime, constant evaluation and improvement of the process and making finances readily available in case of need. These respondents also explained that so far, evidence indicates that those managements who are less committed, have faced challenges such as limited trucks and a poorly committed management which result from the manager's failure to ensure that all employees are well remunerated. while in 2017 about 32 participants share this opinion which is the same as 2015. These respondents seem to suggest that even though, as Rodrigue (2013), Silva (2013) and Gunasekaran, Patel and Tirtiroglu (2001) state, the use of the Internet, freight courier companies and the integration of transportation influence the effectiveness of last mile distribution, without management commitment, those strategies may not have a significant impact on the last mile distribution in the Nigerian context.

Besides management commitment, in 2015, 54 participants noted that the extent, to which third party logistics providers are used, is one of the core factors determining the effectiveness of the last mile distribution. While in 2017 about 54 participants also share this opinion which is the same as 2015. 54 participants noted that the decisions on third party logistics providers depend on management commitment and the availability of finances. They explained that at present, the third party logistic providers engaged by the wine suppliers include private van owners running their own businesses, and freight companies. These pointed out that, to a significant extent, the use of these third party logistics providers enabled Nigerian wine companies to reduce their freight workloads, something they cannot achieve with the limited number of trucks and vans that they own. In addition, the 54 participants noted that the use of third party logistics providers has enabled them to reduce costs which could have been incurred in the purchase of trucks and vans.

They further noted that the use of the third party logistics suppliers makes it possible for wine products to reach different locations in Nigeria, since most third party logistics suppliers are specialist transporters who know alternative routes and are able to ensure that products reach different locations even in the event of traffic congestion. Yet, the participants said that most of the third party logistics providers who use their own vans also provide cost benefits as they often take on additional work to cover the costs of van ownership and maintenance, and as such tend not to charge higher prices for the delivery of freight to local customers.

In 2015, 63 participants use door-to-door delivery as a strategy for improving the effectiveness of last mile distribution. While in 2017 about 63, participants also share this opinion which is the same as 2015. This, according to them, improves retailers' satisfaction and loyalty. Also, as Figure 2 shows, that in 2015, 33 participants indicated that they build business partnerships with customers by soliciting for direct collection in exchange for price reductions. While in 2017 about 33 participants also share this opinion which is the same as 2015. These participants noted that this has resulted in better working relationships where most retailers are able to ignore certain weaknesses that may have emerged in the supplier's last mile distribution. Above all, in 2015, 42 participants noted that in a number of instances, they have been careful when determining locations for their depots. Considering the fact that most urban areas in Nigeria are over congested and saturated, while in 2017 about 42 participants also share this opinion which is the same as 2015. The 42 participants said most of them prefer locating depots in rural areas, so that they avoid traffic and congestion in the urban areas, and benefit from proximity to local consumers.

These respondents noted that the location of depots in rural areas has improved the speed, efficiency, and cost at which freight is moved from depots to the final consumers. In conclusion, the overall analysis of the primary findings would suggest that the kinds of management-related factors that influence the effectiveness of last mile distribution include management commitment, third party logistics providers, door-to-door couriers, partnership with customers, and location decisions during the establishment of depots. Interviewees revealed that through the development of effective last mile distribution, they are able to meet their market-related needs that include the provision of quality freight services, low costs, meeting customers' expectations, and provision of information and communication. While these findings are supported by the arguments of Rodrigue (2013), Silva (2013) and Gunasekaran, Patel and Tirtiroglu (2001), participants also revealed that the effectiveness of last mile distribution is hampered by a number of limitations.

3.2. Factors Limiting the Transportation of Wine. Most participants revealed that the effectiveness of the last mile distribution network is also affected by distribution limitations, management-related limitations, ports and terminal-related limitations, customer-related limitations, and governmental limitations. To a significant degree, these primary findings echo the views of Scott (2009) and Allen (2012) who argue that research on last mile distribution as a supply chain management strategy has become important due to the poor planning of the road infrastructure in most developing countries. Consequently, a significant number of modern business enterprises now face the challenge of distributing or making deliveries in urban areas where the convergence of retailers, restaurants and other merchants contribute to congestion and traffic that slow movement across central districts.

3.3. The Distribution Limitations. Regarding distribution limitations, most participants felt that effective last mile distribution for the Nigerian wine suppliers is hindered by the lack of effective urban/ rural distribution centers, poor usage of the Internet, poor transportation facilities, and a competitive door-to-door delivery market. It is noted in Figure 3 that 55 participants mentioned that a lack of effective distribution centers seems to affect the effectiveness of the last mile distribution. Most wine suppliers in Nigeria tend to operate on smaller scales, with the effect that they only use shops with limited storage facilities. As these respondents explained, limited storage facilities in urban centers limit the amount of consignments that can be ordered, thereby contributing to the problem of inventory management and costs. This means that Nigerian wine suppliers must constantly place orders for wine products from South Africa, Europe and the rest of the world. This constant ordering of smaller wine consignments from different countries results in cost increments and mars the effectiveness of last mile distribution. The respondents explained that limited storage facilities make it impossible for them to stock sufficient products to meet increasing demands for wine consumption in Nigeria. The following figure illustrates the distribution limitation in last mile distribution.

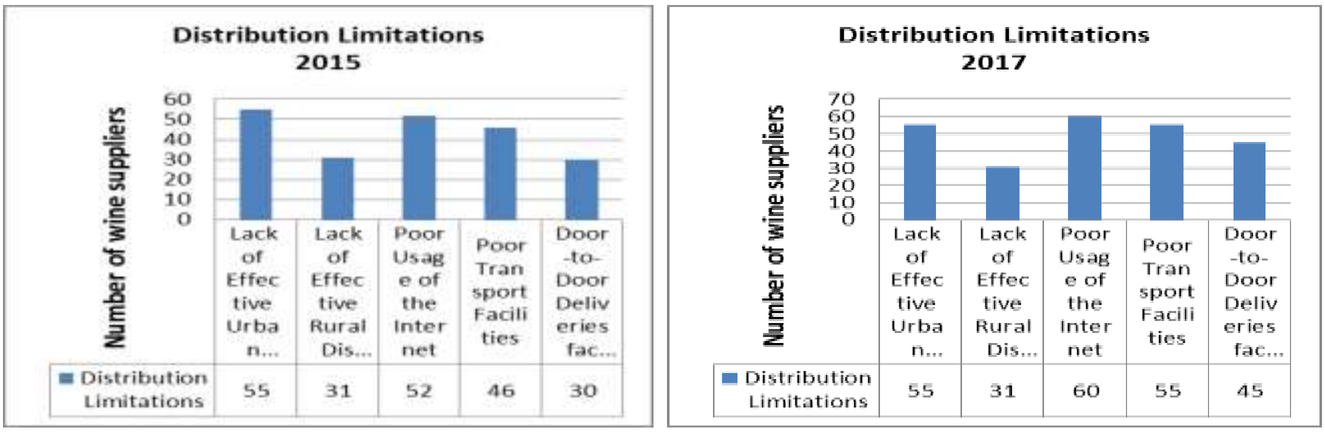

Figure 3. Distribution Limitations in Last Mile Distribution
Source: researcher's own construct

They also state that in the absence of effective large scale urban distribution centers, it will be difficult for them to effectively address the challenges they are facing. In addition to the lack of effective urban distribution centers, in 2015, 55 respondents indicated that due to increasing congestion, traffic and costs that are involved in the establishment of urban distribution centers, most wine distributors in Lagos Island, Nigeria would have considered setting up rural distribution centers. They also explained that distribution centers are increasingly being concentrated in urban centers, a situation that is contributing to the slow process of moving freight from urban centers to rural wine consumers, and that also keeps the centers less proximate to rural customers, while in 2017 about 55 participants also share this opinion which is the same as in 2015. They explained that while it was true that the establishment of the distribution centers enhances the extent to which wine dealers are able to service the significant number of wine consumers in urban centers, they also noted that establishing these centers far away from the larger consumers in rural areas not only affects the efficiency and effectiveness of moving products to final consumers, but also affects sales increment, profitability and competitiveness.

Increasingly, a number of industries are adopting the use of the Internet as a means of improving the effectiveness of last mile distribution. In 2015, 52 participants explained that they, along with final customers, face significant challenges in using the Internet for this purpose. While in 2017 about 60 participants share this opinion. They spoke of the fear of hackers and fraudsters in the use of e-commerce. Despite the fact that there are limitations arising from lack of sufficient funds to invest in information systems, these respondents also expressed concerns that even if e-commerce were used, the process of delivering the actual wine products cannot be accomplished online, but through vans and trucks that can still contribute to congestion and traffic.

Besides the challenges associated with e-commerce, 46 participants revealed that poor roads resulting from poor governmental commitments with regard to road maintenance, also affect the movement of wine consignments from terminals to depots, wholesalers, retailers and final consumers. While in 2017 about 55 participants share this opinion. They noted that most of the roads they use are not tarred or paved and that many have potholes, all of which make movements very difficult especially when it rains and trucks (particularly those which go to rural locations) get stuck. According to these 55 participants, this slows down the process of moving wine consignments in the last mile distribution networks.

Although door-to-door delivery is used by all the wine suppliers, Figure 3 in 2015 indicates that 30 of them stated that this is still hampered by congestion and traffic. They also noted that door-to-door delivery is experiencing challenges associated with the poor planning of urban centers that sometimes make it difficult to locate certain customers in rural locations; while in 2017 about 45 participants share this opinion. The consequence is that the trucks or vans engaged in door-to-door deliveries usually get lost, thereby leading to delays and slowing the processes of moving the wine products to the local customers.

3.4. Management-related Limitations. The thematic evaluations of the results of the interviews indicate that management-related challenges which are limiting the effectiveness of last mile distribution include lack of sufficient funds, poorly skilled managers and employees, poor training of the sales force, high levels of competition, and high marketing costs. Figure 4 in 2015, shows that 40 participants explained that lack of funds limited the extent to which management is able to invest in all the facilities required to facilitate effectiveness. While in 2017 about 50 participants share this opinion. They also noted that the last mile distribution for the wine products would be improved if there were multiple distribution points in different parts of Nigeria. They explained that this would enable them to bypass several challenges including congestion and traffic. Figure 4 illustrates the results of management-related limitations in last mile distribution.

50 participants also noted that limited funds have hampered investment in a significant number of trucks. In effect, they revealed that most wine distributors tend to subcontract or outsource the delivery of wine to courier companies that are well resourced. However, as they explained, the downside of such a strategy has been that they have been unable to save costs resulting in their not being able to offer their wine products cheaper in order to attain price advantages over other beverage dealers. In line with the revelations of these 40 participants, wine consumption is still viewed by a significant number of Nigerians as the drink for the most affluent due to the premium prices charged.

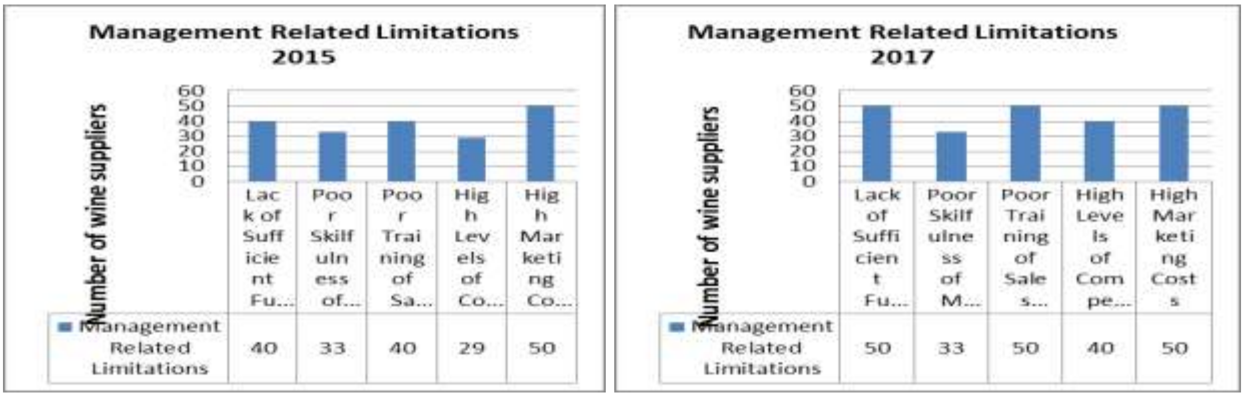

Figure 4. Management Related Limitations in Last Mile Distribution
Source: researcher's own construct

33 participants also noted that the effectiveness of the last mile distribution is limited by the inability of managers and employees to ensure that it is constantly evaluated and improved in accordance with changes in the modern business environment. While in 2017 about 33 participants share this opinion which is the same as in 2015. The poor skills among managers and employees are one of the challenges facing the effectiveness of last mile distribution. Also, from 29 participants in 2015 increased to 40 in 2017; 50 participants in 2015 believed that high marketing costs make it difficult for them to obtain more customers. While in 2017 about 50 participants share this opinion which is the same as 2015. Participants explained that without a significant number of customers, the effective movement of wine products is significantly hampered.

3.5. Ports and Terminal-related Limitations. Interviewees explained that ports and terminal-related limitations that they contend with include slow custom processes, poor services, incompetent officials, limited storage facilities, as well as limited capacity of ports and terminals.

In 2015, 60 participants explained that most customs services are quite slow and do not guarantee the quick clearing of wine consignments ordered from foreign countries for distribution to the customers. While in 2017 about 60 participants share this opinion. According to these 60 participants, these delays of the customs processes slow down the effectiveness of wine distribution. They also attribute poor customs service to the shortage of personnel. Figure 5 illustrates the results of ports and terminal limitation impacting on last mile distribution.

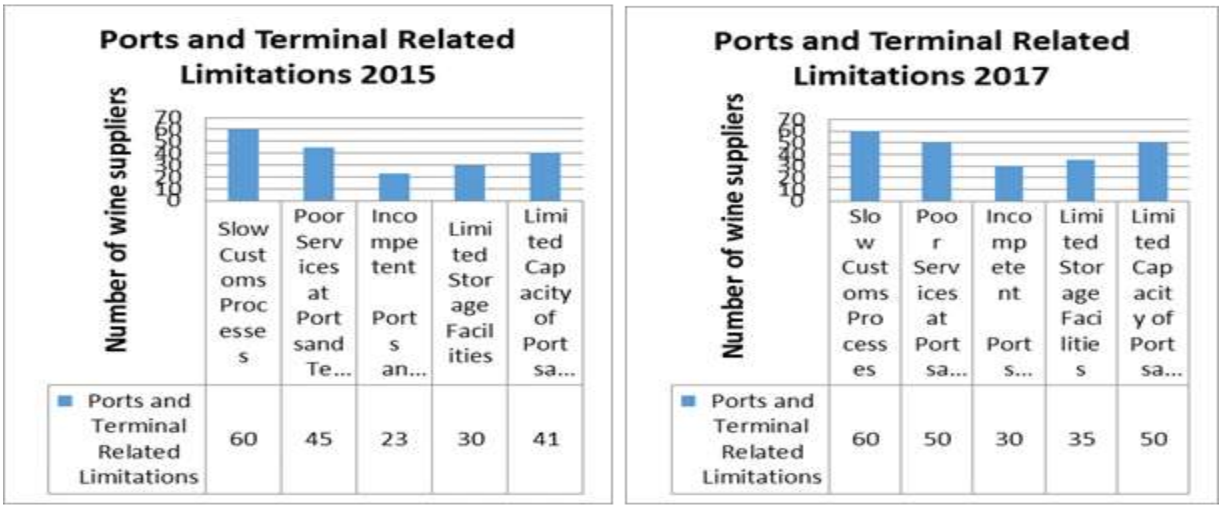

Figure 5. Ports and Terminal Related Limitations impacting on last mile distribution
Source: researcher's own construct

In 2015, 45 participants also pointed out challenges associated with the fact that most companies providing port services have not invested in the upgrading of their equipment to ensure that they use more efficient modern equipment, while in 2017 about 50 participants share this opinion. They explained that a number of the Nigerian ports do not have sufficient capacity and storage facilities, and in effect in a number of cases, arriving cargoes are forced to remain on board until storage space is created. These views are corroborated by 30 other interviewees in 2015 who identified the lack of effective storage facilities at the ports as a problem, while in 2017 about 35 participants share this opinion. Similarly, 41 participants in 2015 noted that lack of adequate capacity limits the ability of the existing terminals and ports to effectively and efficiently handle the workload resulting from the increasing volumes of cargo. While in 2017 about 50 participants share this opinion.

23 participants in 2015 also stated that because most workers at the ports and terminals are incompetent, they are unable to effectively and efficiently accomplish the management of the constant inflow of cargo. This creates conditions that make it difficult for imported wine products to be transported efficiently and speedily to the wholesalers and subsequently to the retailers. While in 2017 about 30 participants share this opinion.

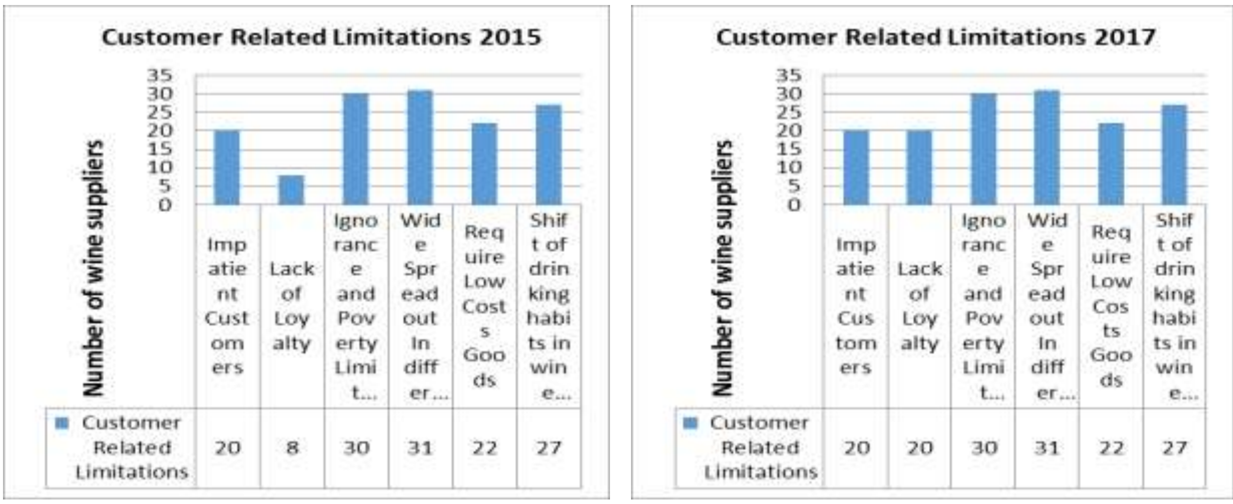

Figure 6. Customer Related Limitations on Last Mile distribution activities
Source: researcher's own construct

Participants include impatient customers, lack of loyalty, ignorance, limited Internet usage, wide ranging scarcity of wine in different remote rural locations, demand for low cost goods, and a gradual shift in drinking habits towards wine consumption. 20 interviewees stated that impatient customers are a problem for the effective accomplishment of last mile activities. While in 2017 about 20 participants also share this opinion which is the same as in 2015. They noted that because there are numerous suppliers, final customers find it easier to switch from one source to another in the event of a delay.

The implication is that the same goods must be reloaded and transported back at the cost of the supplier. These unnecessary costs subsequently add to the general operational costs of managing freight movements. Although building good customer relationships is one of the strategies through which impatient customers can be effectively managed, participants noted that practice has proven that it is possible to deal with impatient customers who are unwilling to compromise their demands for efficient and effective services. The views of these 20 participants suggest that it is not possible to effectively manage the last mile distribution without the cooperation and inclusion of customers as partners in the chain. Figure 6 illustrates the results despite the fact that their views substantiate the opinions of 8 other participants who expressed concerns about lack of customer loyalty, while in 2017 20 participants also share this opinion. In 2015, 30 interviewees stated that ignorance of Internet usage among most Nigerian wine customers has made it impossible for them to use the Internet as a means of reducing challenges in the last mile distribution. While in 2017 about 30 participants also share this opinion which is the same as in 2015. 31 interviewees stated that the wine customers spread out in the different parts of Nigeria also render the transportation of wine from the wholesalers to the retailers difficult and costly. While in 2017 about 31 participants also share this opinion which is the same as in 2015. Yet, as 22 of the participants noted, most wine customers usually require price cuts which cannot be provided in view of increasingly costly last mile distribution processes, while in 2017 about 22 participants also share this opinion which is the same as in 2015. Although in a number of instances, the wholesalers are able to transport wine to retailers effectively. 27 interviewees explained that there is still a significant challenge experienced in convincing consumers to shift their drinking habits in favor of wine, while in 2017 about 27 participants also share this opinion which is the same as in 2015.

According to them, this challenge implies that whereas improvement in the efficiency of last mile distribution would influence the effective movement of wine products to the customers, the customers get stuck with a significant amount of wine. A solution to this problem is proposed by Walsh (2006). He argues that the values that are associated with the improvement in the last mile distribution network will come in handy, especially when accompanied by the applications of the relevant strategies for improving the effectiveness of direct marketing. He also suggests that marketers at the retail levels must apply a marketing framework that involves learning about the available direct and indirect channels, evaluating the essential customers' requirements, matching the distribution strategies to the objectives and customers' needs, and selecting the right channel partners.

3.6. Governmental Limitations. Participants noted that governmental limitations affect the last mile distribution negatively. Issues they highlighted are poor strategic partnerships with government departments, poor road facilities, high levels of congestion and traffic, corruption among government officials, changes in import regulations, and high import duties. 45 participants felt that there were limited partnerships between ordinary businesses and government. See Figure 7 indicating the results of government limitation on last mile distribution, while in 2017 about 45 participants also share this opinion which is the same as in 2015.

They stated that partnerships between government and business can be achieved through activities such as road improvements and construction, improving the speed of customs services, and the expansion of ports and terminal facilities. 34 interviewees explained that most roads that are presently used are full of pot holes, while in 2017 about 34 participants also share this opinion which is the same as in 2015. Although the improvements of such roads do not fall within the domain of the private sector, strong partnerships between the private sector and government would significantly result in the development of roads. This will in return facilitate the faster and quicker movement of wine products from the wholesalers to the retailers and subsequently to the final consumers.

Their view is supported by Allen and Browne (2012) who note that poor and limited capacity of ports and terminals limit the fast processing of logistic services and slow down the process of moving freight from ports to the distributors, wholesalers, retailers and final customers. They argue that the solution lies in partnerships between freight transport companies and policy makers. According to 67 participants, this has not been forthcoming due to the failure of the Nigerian government to implement regulations that will reduce traffic congestion in urban centers, while in 2017 about 67 participants also share this opinion which is the same as in 2015. They explained that there are only a few of the council bye-laws that have been implemented to regulate and control the movement of freight vans and trucks in urban centers. The uncontrolled movement of heavy duty trucks and numerous delivery vans results in congestion and slow movement of the wine supplies from the wholesalers to the retailers.

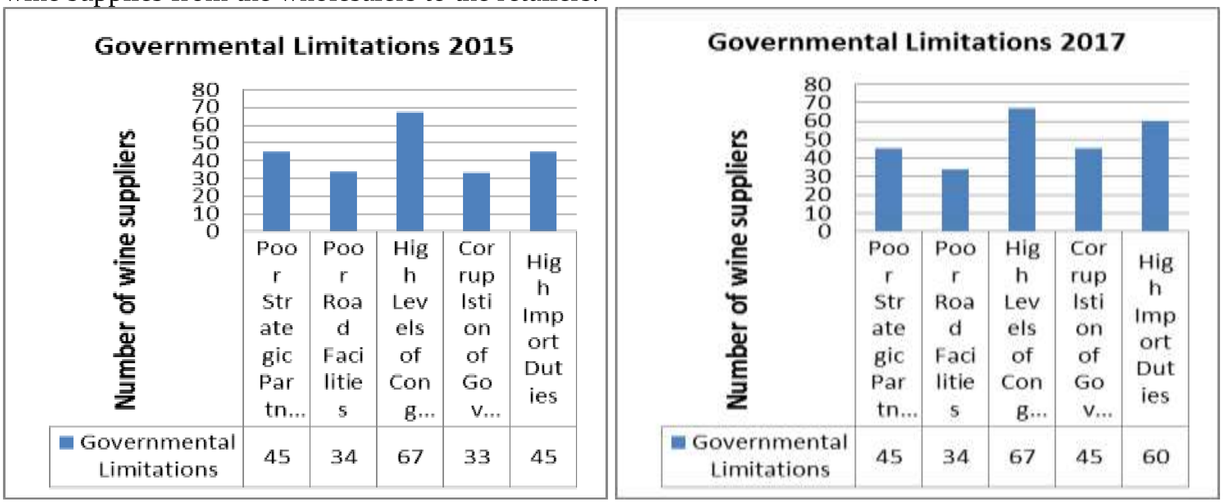

Figure 7. Governmental Limitation Impacts on Last Mile Distribution

Source: researcher's own construct

They also felt that designated lanes for moving freight can ease traffic congestion and allow goods to be moved faster. Although cutting costs is one of the strategic objectives that they seek to achieve. In 2015, 33 participants noted that the increasing corruption and demand for bribes by some Nigerian government officials have resulted into cost escalations. While in 2017 about 45 participants also share this opinion. Furthermore, these 33 participants explained that demands for bribes by government officials make the effective accomplishment of ports and terminal services difficult. They say cargo owned by those who offer bribes are cleared faster than those who refuse. It results in the latter having to wait months before they are cleared. According to them, this affects the speed and efficiency at which the wine consignments are delivered from the ports to the consumer. Additionally, in 2015 45 suggested that high import duties also increase costs. While in 2017 about 60 participants also share this opinion. In whole, it is quite clear that in terms of the distribution limitations, management limitations, ports and terminal related limitations, customer limitations and governmental limitations are the factors that mar the effectiveness of last mile distribution for the wine suppliers in Lagos Island, Nigeria.

4. Conclusions

Human resources factors influence the effectiveness of the last mile distribution. The themes emerging from the analysis of the interview findings suggest that management-related factors also affect the effectiveness of last mile distribution.

The kinds of management-related factors that influence the effectiveness of last mile distribution include management commitment, third party logistics providers, door-to-door couriers, partnership with customers, and location decisions during the establishment of depots. Interviewees revealed that through the development of effective last mile distribution, they are able to meet their market-related needs that include the provision of quality freight services, low costs, meeting customers' expectations, and provision of information and communication.

Most participants revealed that the effectiveness of the last mile distribution network is also affected by distribution limitations, management-related limitations, ports and terminal-related limitations, customer-related limitations, and governmental limitations. Regarding distribution limitations, most participants felt that effective last mile distribution for the Nigerian wine suppliers is hindered by the lack of effective urban/ rural distribution centers, poor usage of the Internet, poor transportation facilities, and a competitive door-to-door delivery market; a lack of effective distribution centers seems to affect the effectiveness of the last mile distribution.

Most wine suppliers in Nigeria tend to operate on smaller scales, with the effect that they only use shops with limited storage facilities. As these respondents explained, limited storage facilities in urban centers limit the amount of consignments that can be ordered, thereby contributing to the problem of inventory management and costs. This means that Nigerian wine suppliers must constantly place orders for wine products from South Africa, Europe and the rest of the world. This constant ordering of smaller wine consignments from different countries results in cost increments and mars the effectiveness of last mile distribution. The respondents explained that limited storage facilities make it impossible for them to stock sufficient products to meet increasing demands for wine consumption in Nigeria.

Participants noted that governmental limitations affect the last mile distribution negatively. Issues they highlighted are poor strategic partnerships with government departments, poor road facilities, high levels of congestion and traffic, corruption among government officials, changes in import regulations, and high import duties.

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INNOVATION PERFORMANCE AND THE DEVELOPMENT POTENTIAL OF INNOVATION CLUSTERS AT THE LEVEL OF LAGGING-BEHIND REGIONS IN CENTRAL AND EASTERN EUROPE

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Abstract:*The present study establishes the relationship between the innovation performance of enterprises in the lagging-behind regions in Central and Eastern Europe and the regional potential for development of innovation clusters. It assesses performance in innovation at the level of lagging-behind regions in Central and Eastern Europe, based on the 2019 Regional Innovation Scoreboard. The development potential of innovation clusters shall be determined on the basis of the Cluster Stars indicator (European Cluster Observatory). The results of the study highlight a positive link between innovation performance and the development potential of innovation clusters. Regions with a greater number of innovation clusters, but also those that have a higher potential for developing these clusters, enjoy greater innovation performance. Innovative organisations that are part of these clusters stimulate all cluster members to develop their innovative practices and new products/services.*

Key words: *innovation, innovation performance, innovation clusters, lagging-behind regions, Central and Eastern Europe.*

JEL Classification*: O10, R11.*

1. Introduction

The European Union aims to support smart and sustainable growth and create conditions for supporting innovation, reasonable use of resources and valorisation of knowledge.

It is not surprising that regions that are economic leaders in Europe also perform strongly in innovation (Blazek and Kadlec, 2018, p.16). Moreover, small and medium-sized enterprises, through their high flexibility, can have greater innovation potential compared to large firms. When innovation is concentrated in a single large firm, it is possible to show "creative myopia", that inability to look around, to learn from others (Foray and Goenaga, 2013, p.8).

The aim of this research is to highlight the relationship between regional innovation performance and the potential for the creation and development of innovation clusters, at the level of lagging-behind regions in Central and Eastern Europe.

In section 2, it is analysed the literature on innovation concepts and innovation clusters. Section 3 assesses innovation performance based on the centralisation of Regional Innovation Scoreboard 2019 values. Section 4 establishes the existence of a positive correlation between innovation performance and the potential for development of innovation clusters. The paper concludes with a section of conclusions.

2. Innovation systems and innovation clusters

”Innovation is to an increasing extent grasped as an interactive and evolutionary process. Due to its complexity, single firm – especially small and medium-sized enterprises (SMEs) – are supposed to innovate in cooperation with other firms which enables all partners to optimally use own internal knowledge resources and to combine them with specific competencies of their partners” (Muller and Zenker, 2001, p.2).

Different types of innovation have different types of determinants, thus, disaggregating them is important (Figueiredo, 2018, p.24). For example, Edquist (2005) appreciates that there is a difference between process innovation and product innovation. He clarifies that while product innovations relate to what is being produced, process innovations concern how they are produced. While goods and technological innovations are tangible, services and organizational ones are intangible.

While innovation studies highlight its effect at a micro-economic level, studies on innovation systems highlight the macroeconomic dimension of innovation and its effects on the whole economy (Figueiredo, 2018, p. 32).

The existence, in the literature, of a vast number of publications on this issue makes it difficult to define innovation systems. Innovation systems can be defined as ”all important economic, social, political, organisational, institutional and other factors that influence the development, diffusion and use of innovation” (Edquist, 2005, p.182). ”Innovation systems can have a national, regional, sectoral or technological dimension (Koschatzky et al., 2014, p.6). They might also be related and interwoven in the form of supra-national and interregional as well as combinations of spatial, sectoral and technological innovation systems (Fromhold-Eisebith, 2007; Markard and Truffer, 2008). Lundvall (1992, p. 2) describes an SI as a “system constituted by elements and relationships which interact in the production, diffusion and use of new and economically useful knowledge”.

The innovation process may be seen as an intricate interplay between micro and macro phenomena where macro-structures condition micro-dynamics and vice versa new macro-structures are shaped by micro-processes. In a dynamic context this means that we need to understand systems as being complex and characterized by co-evolution and self-organizing (Lundvall, 2007, p.101).

Business associations are part of creating innovation systems, establishing research-development funding policies, supporting technological development and innovation (Koschatzky et al., 2014, p.13). From the experience of some German associations, the functions of regional innovation systems are structured in several categories, and support for research and innovation has an important role (Koschatzky et al., 2014, p.14):

Table no. 1. Functions in regional innovation systems (derived from experiences in Germany)

Type	Function
Association of companies	Lobbying, representation, participation, selfregulation
Chambers of Commerce and Industry	Services for member firms (e.g. training, qualification, seminars, advice & consultancy, information, events) Regional economic policy Lobbying, representation
Trade Unions	Participation of employees Labour conditions and wages Safeguarding of facilities
Employers association	Organisation of common interests of its members vis-a-vis the trade unions (e.g. wage bargaining) and policy (pressure-group function) Representation and enforcing of member interests Support of members (e.g. information and training activities)
Publicly or privately funded cluster initiatives and networking organisations	Advice and consultancy, information Networking and matching activities, events Regional strategies and self-organisation *Innovation and R&D support* Knowledge and technology transfer Public relations Internationalisation

Public promotion agencies	Safeguarding regional industry's competitiveness Industrial location support Provision of infrastructure (e.g. industrial real estate, spaces for start-ups, incubators) Cluster and network support Advice and consultancy, information
Business clubs and similar associations	Informal networking Humanitarian and social activities (health, education, conflict prevention, economic development) Cultural projects
Innovation councils	Policy advisory board Formulation of visions and objectives for *innovation policy* Elaboration of cross-departmental solutions Policy recommendations
Regional conferences & initiatives	Consensus building Participation, stakeholder process Formulation of statements for *innovation/regional policy*
Research associations	Organising cooperative research projects

Source: Koschatzky et al., 2014, p.14.

The innovation performance of the lagging-behind regions in Central and Eastern Europe is a concern for researchers. Thus, Blazek and Kadlec (2018) analysed the relationship between the research base, the research-development structure and the performance in innovation. This research highlighted that there are differences between European regions; thus, in advanced regions, private and public investment in research – development or a relatively balance between private and government is prevailing; in the lagging-behind regions, the structure is opposite.

Innovation develops in a conducive framework, conferred by the innovation clusters themselves. These are those interconnected networks of businesses, suppliers, institutions, universities, local and regional authorities that promote innovation and economic growth at regional level. An important role is held by producers using high technologies and holding research centres, universities and public authorities concerned (Timotin, 2016). The lifecycle of a cluster depends on its ability to support innovation.

3. Assessment of innovation performance, at the level of lagging-behind regions in European Union

The present paper aims to assess the innovation performance, at the level of the lagging-behind regions in the European Union, and to establish the relationship between the innovation performance of small and medium-sized European enterprises and the potential Regional development of innovation clusters, in different areas of activity.

In the first phase, the less developed regions of Central and Eastern Europe were identified, from Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia. Thus, the list of the 53 lagging-behind regions in Central and Eastern Europe was created.

For the evaluation of innovation performance, Regional Innovation Scoreboard (RIS) was studied (Hollanders, Es-Sadki and Merkelbach, 2019). This report, drafted by the European Commission, provides a comparative assessment of the national innovation systems for 238 regions in 23 member states, Norway, Serbia and Switzerland. Similar to the European Innovation Scoreboard (EIS), where countries are classified into four innovation performance groups, Europe's regions have been classified into similar groups of regional Innovation Leaders (38 regions), regional Strong Innovators (73 regions), regional Moderate innovators (97 regions) and regional Modest Innovators (30 regions) (Hollanders, Es-Sadki and Merkelbach, 2019, p.4).

The RIS methodology takes up the EIS methodology, used to measure performance at national level, and uses 17 of the 27 indicators of the EIS 2019. The data was available at the level of 2017 for six indicators, at the level of 2016 for ten indicators and at the level of 2015 for an indicator. In addition, a revision of the NUTS classification resulted in the change in the number of regions for France (from 9 to 14), Hungary (from 7 to 8), Ireland (from 2 to 3), Lithuania (from 0 to 2) and Poland (from 16 to 17).

For the present research, the value of the RIS 2019 was chosen. The data for the "Sales of new-to-market and new-to-firm innovations" indicator refers only to small and medium-sized enterprises, not to all companies. There is a lack of data for Estonia and Latvia, which leads to their elimination from the list; this leaves 51 regions left behind for evaluation. The results achieved led to a ranking of the lagging-behind regions, in Central and Eastern Europe, in terms of innovation performance (Table no. 2).

Table no. 2. Innovation performance index of the 51 lagging-behind regions, in Central and Eastern Europe

No. Crt.	Region	RIS 2019
1.	LT01 - Sostinės regionas	90.5
2.	CZ05 - Severovýchod	88.7
3.	CZ06 - Jihovýchod	85.0
4.	CZ03 - Jihozápad	82.4
5.	PL36 - Warszawski stoleczny	82.4
6.	HU12 - Pest	81.5
7.	CZ07 - Stredni Morava	80.1
8.	CZ02 - Stredni Cechy	79.5
9.	CZ08 - Moravskoslezsko	78.7
10.	SI03 - Vzhodna Slovenija	73.9
11.	PL21 - Malopolskie	73.4
12.	LT02 - Vidurio ir vakarų Lietuvos regionas	68.4
13.	HR04 - Kontinentalna Hrvatska	61.2
14.	PL34 - Podkarpackie	61.0
15.	PL30 - Pomorskie	60.4
16.	CZ04 - Severozápad	60.1
17.	PL26 - Dolnoslaskie	59.7
18.	SK04 - Východné Slovensko	59.7
19.	SK02 - Západné Slovensko	58.6
20.	BG41 - Yugozapaden	56.8
21.	HU22 - Nyugat-Dunántúl	55.1
22.	PL31 - Lódzkie	54.9
23.	HU33 - Dél-Alföld	54.5
24.	SK03 - Stredné Slovensko	54,5
25.	PL22 - Slaskie	53.8
26.	HU21 - Közép-Dunántúl	53.4
27.	HU23 - Dél-Dunántúl	53.3
28.	HU31 - Észak-Magyarország	53.1
29.	HU32 - Észak-Alföld	52.0
30.	PL37 - Mazowiecki regionalny	49.2
31.	PL33 - Lubelskie	48.4
32.	PL32 - Swietokrzyskie	48.3

33.	PL28 - Kujawsko-Pomorskie	48.2
34.	HR03 - Jadranska Hrvatska	47.1
35.	PL35 - Podlaskie	45.4
36.	PL24 - Zachodniopomorskie	45.1
37.	PL27 - Opolskie	43.2
38.	PL25 - Lubuskie	42.9
39.	BG32 - Severen tsentralen	40.2
40.	BG42 - Yuzhen tsentralen	39.4
41.	BG33 - Severoiztochen	39.1
42.	PL29 - Warminsko-Mazurskie	38.7
43.	BG34 - Yugoiztochen	37.4
44.	RO42 - Vest	34.3
45.	BG31 - Severozapaden	32.6
46.	RO11 - Nord-Vest	31.1
47.	RO12 - Centru	28.6
48.	RO22 - Sud-Est	23.1
49.	RO21 - Nord-Est	22.5
50.	RO31 - Sud - Muntenia	19.3
51.	RO41 - Sud-Vest Oltenia	15.0

Source: Hollanders, H., Es-Sadki, N. and Merkelbach, I., 2019. *Regional Innovation Scoreboard*. Luxembourg: Publications Office of the European Union.

After innovation performance, some regions of Latvia, Czech Republic, Poland, Hungary are on first positions. We find that, unfortunately, the regions of Romania occupy the last places with the lowest level of innovation performance. This reflects the poor innovation orientation of the Romanian economy and the poor financing of research-development-innovation activities.

4. The relationship between innovation performance and the potential for creation and development of innovation clusters

For the analysis of the regions, from the point of view of the significant agglomerations of innovation clusters and the potential for creating innovation clusters, the European Cluster Observatory (European Union, 2018) was studied and opted for the Cluster Stars indicator. This is a composite indicator that takes into account four dimensions: Number of employees, Location coefficient, Labor productivity and Annual growth rate. A agglomeration receives a star if it is in the top 20% of the regions of the European Union for each of the four dimensions.

For this study, the values of this composite indicator were recorded at the level of each analysed regions (Gănescu, Şerbănică, Ene and Talmaciu, 2019). From the lack of data, the two regions of Croatia, the Pest region of Hungary, the regions Warszawski Stoleczny and Mazowiecki Regionalny in Poland, as well as the regions of Slovenia, were excluded from the analysis. They remained 45 regions in analysis.

Table no. 3. Regional innovation performance, Cluster Stars and GDP per capita

Nr. Crt.	Regiune	GDP per capita, 2017	Regional Innovation Scoreboard - RIS 2019	Cluster Stars - CS
1.	CZ06 - Jihovýchod	15400	85.0	55
2.	CZ02 - Strední Cechy	15300	79.5	49
3.	PL22 - Slaskie	11500	53.8	46
4.	PL26 - Dolnoslaskie	12300	59.7	44
5.	RO12 - Centru	8000	28.6	43
6.	BG41 - Yugozapaden	10900	56.8	42
7.	PL21 - Malopolskie	10100	73.4	42
8.	CZ08 - Moravskoslezsko	14300	78.7	41
9.	PL30 - Pomorskie	10700	60.4	40
10.	SK02 - Západné Slovensko	13900	58.6	40
11.	CZ05 - Severovýchod	13800	88.7	39
12.	CZ07 - Strední Morava	13600	80.1	38
13.	HU32 - Észak-Alföld	7400	52.0	36
14.	CZ03 - Jihozápad	14700	82.4	35
15.	RO42 - Vest	8900	34.3	35
16.	SK03 - Stredné Slovensko	11900	54.5	35
17.	SK04 - Východné Slovensko	10400	59.7	35
18.	PL34 - Podkarpackie	7900	61.0	34
19.	CZ04 - Severozápad	12000	60.1	33
20.	HU31 - Észak-Magyarország	7700	53.1	32
21.	PL28 - Kujawsko-Pomorskie	9100	48.2	32
22.	PL31 - Lódzkie	10400	54.9	32
23.	RO11 - Nord-Vest	7600	31.1	32
24.	HU33 - Dél-Alföld	8300	54.5	31
25.	PL24 - Zachodniopomorskie	9300	45.1	31
26.	BG42 - Yuzhen tsentralen	4700	39.4	30
27.	HU21 - Közép-Dunántúl	11000	53.4	30
28.	HU22 - Nyugat-Dunántúl	12700	55.1	30
29.	RO21 - Nord-Est	5300	22.5	30
30.	RO31 - Sud - Muntenia	6800	19.3	29
31.	HU23 - Dél-Dunántúl	7600	53.3	26
32.	RO41 - Sud-Vest Oltenia	6300	15.0	26
33.	PL32 - Swietokrzyskie	7900	48.3	23
34.	RO22 - Sud-Est	7400	23.1	23
35.	PL25 - Lubuskie	9300	42.9	22
36.	PL33 - Lubelskie	7600	48.4	22
37.	PL27 - Opolskie	8900	43.2	21
38.	PL29 - Warminsko-Mazurskie	7900	38.7	21
39.	BG34 - Yugoiztochen	5900	37.4	19
40.	BG31 - Severozapaden	4100	32.6	16
41.	BG32 - Severen tsentralen	4700	40.2	16
42.	BG33 - Severoiztochen	5400	39.1	16

43.	LT02 - Vidurio ir vakarų Lietuvos regionas	13500	68.4	16
44.	LT01 - Sostinės regionas	13500	90.5	15
45.	PL35 - Podlaskie	7900	45.4	14

Sources: Gănescu, C., Şerbănică, C., Ene, S. and Talmaciu, I., 2019. Innovation clusters, tools to promote and support regional smart specialization. *Management & Marketing*, volume XVII, issue 1/2019, pp.7-18; European Union, 2018. *European Cluster Collaboration Platform, Cluster Organisations Mapping Tool.* [online] Available at: <https://www.clustercollaboration.eu/cluster-mapping> [Accessed 5 July 2019].

The ranking according to Cluster Stars indicator highlights the presence, in the top ten, of regions in the Czech Republic, Poland, Romania and Bulgaria, which recorded a high score, respectively over 40 stars (Table no. 3). In these regions, there are important and potentially high agglomerations to create innovation clusters.

In order to highlight the relationship between regional innovation performance and the potential for the creation and development of innovation clusters, at the level of the lagging-behind regions in Central and Eastern Europe, the statistical correlation method was used. The value 0.419192 of the correlation coefficient between RIS 2019 and CS highlights the existence of a direct, positive, high-intensity link (Table no. 4).

Table no. 4. The correlation matrix between RIS and CS

	RIS	CS
RIS	1	0.419192
CS	0.419192	1

Therefore, there is a positive correlation between the regional innovation performance and the potential for the creation and development of innovation clusters.

Even if, in some lagging-behind regions in Central and Eastern Europe, there are innovation clusters or potential for developing innovation clusters in extremely dynamic areas, it is evident that it represents only a framework that can sustain the innovation performance. It is necessary, within these clusters, to have companies, institutions, universities or authorities to financially support research-development-innovation, to create and develop their research infrastructure, to use new technologies and performance. Only by supporting innovation, these innovation clusters can exist and can develop.

The correlation between GDP per capita and Cluster Stars, which has a value of 0.564261, shows the existence of a positive, medium-intensity relationship. Also, the value 0.825624 of the correlation between GDP per capita and RIS demonstrates the positive, strong relationship between the two indicators. Statistically, it is demonstrated that in regions where the level of development is higher, there are innovation initiatives, especially in the direction of innovation clusters.

5. Conclusions

The lagging-behind regions in Central and Eastern Europe have potential for development, and investment in research and development and in dynamic sectors is the solution of increasing and reducing disparities between the regions of the European Union. Innovation clusters influence regional growth by facilitating the implementation of innovations, reducing costs and applying modern technologies.

We appreciate that in the lagging-behind regions, innovation clusters are contributing significantly to regional development by discovering areas that can influence the growth of smart regional specialisation. Regions with a greater number of innovation clusters, but also those that have a higher potential for developing these clusters, enjoy greater innovation performance. Innovative organisations that are part of these clusters stimulate all cluster members to develop their innovative practices and new products/services.

The results of this study show the exisence of a positive relationship between the regional innovation performance and the potential for the creation and development of innovation clusters, at the level of the lagging-behind regions in Central and Eastern Europe. It is obvious innovation clusters are the framework for increasing the innovation performance of the regions.

Acknowledgements: This work was supported by a grant of Ministry of Research and Innovation, CNCS – UEFISCDI, project number PN-III-P1-1.1-TE-2016-1630, within PNCDI III".

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HISTORY OF THE DEVELOPMENT OF BLOCK-CHAIN CRYPTIC TECHNOLOGY AND ITS FUTURE IN THE GLOBAL ECONOMY

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Abstract: *This article represents the case of study the block-chain technology evolution across its existing like financial, economical and social instrument. With phenomenal growing in 2017 it creates a new industry of pay instrument Bitcoin has laid the foundation for the evolution of financial instruments and information technologies, this wave may sign new changes that may occur in the near future. In addition, forecasts will be made on the future of new digital coins and block-chain technology Keywords: block-chain, bitcoin, finance, economy, technology.*

Keywords: *Block-chain, Bitcoin, Finance, Economy, Information Technology.*
JEL Classification: *O33, G20, G11.*

1. Introduction

The financial system is in constant evolution, and there is always a chance of appearing of new tool for commercial transactions upgrade. Such a tool may become the block-chain technology, since in the technology itself there are potential functions disclosed by altcoins, or not yet disclosed, but with great benefit to reduce the cost and facilitate cash transactions in near future.

How does a purchase with Bitcoin work? Think first about what happens when you pay cash: You can spend a dollar bill once only, the transaction is anonymous, and involves no fee (Vigna and Casey, 2016).

2.Bitcoin and new technology

After its emergence, block-chain technology has seen both moments of mistrust from society and moments of success and increased interest. Today, after the price boom in 2017, the technology has attracted the attention of all economists, investors and brokers across the advanced world. And the Bitcoin has become the face of this technology that is the basis for a multitude of other styles created in different regions of the world.

At the moment, the capitalization of the entire cryptocurrency market exceeds 600 billion US dollars (Serebrenikov, 2018, pp.2-5).

On the eve of the 2008 crisis, a group or a single person named Satoshi Nakamoto launched the Bitcoin coin based on Block-chain technology. This technology consists of the chain by chain link. This system consists of decentralization and the lack of the main server, the information does not accumulate in a specific location such as the Microsoft server where they store their digital products, logs and customer information, but they are stored in blocks to all users of this system, similar to Torrent technology, where data flow takes place directly between users. Instead of the Server → User link, User → User connects.

Bitcoin's currency value is influenced by two sets of factors: energy costs, mining investments, transaction fees) and the market (consumer demand and speculative games), said Valery Petrov, vice president of market development and market regulation. If the first group is fairly stable in the last period and does not have a significant impact on the asset's rate, the second, on the contrary, becomes the driving force that determines the prices.

Bitcoin was originally used by processor resources, then video card resources, where AMD's products have proven to be far more productive than the nVIDIA brand series. This has increased the price for Video Cards and their market failure.

ASIC (application-specific integrated circuit), integrated circuit systems developed for a specific purpose, is at the moment the most feasible Bitcoin mining equipment. Minuses to such Mining may be that not all crypto-coin can be gained through the algorithm used by ASIC, for example, Etherium has blocked the possibility of using them for mining.

Bitcoin was used by criminal organizations, not only because of its cryptographic capacity, but also for feature what consists in fact that transaction once accepted in block-chain, can no longer be canceled or . With this technology there is no risk of stopping the transaction by representatives of law, because this system is independent, momentary and decentralized, compared to system used in banks. In addition, the bitcoin cool jacket is impossible to block or expropriated without access to its physical support (HDD / SDD).

Bitcoin's expensive growth in a geometric proportion is due to the fact that although Bitcoin is a speculative tool for companies, Bitcoin does not have a link with such restrictive factors as the name of the company, the brand or the representative person.

Bitcoin's skepticism is based primarily on the fact that it is a fiduciary currency, which means that it is not covered with gold, precious metals, or some valuable goods. Similar to the dollar that had become a currency uncovered since 1944, according to the "Bretton Woods System". At the same time, the dollar is supported by the US economic power, and is used by most of the world's states as a trade tool, becoming a vital unit for world trade flow.

Lately, this cryptic currency has been transformed from a commercial instrument into an object of exchange, and a speculative element.

The block-chain word itself became a speculative one, and Shanghai's birch funds had executed a 30 per cent survey of block-chain companies, and found that less than half of these companies had a real correlation with block-chain technology. Thus, the on-line PLC company raised its share capitalization by 394% by changing its name to On-line block-chain.

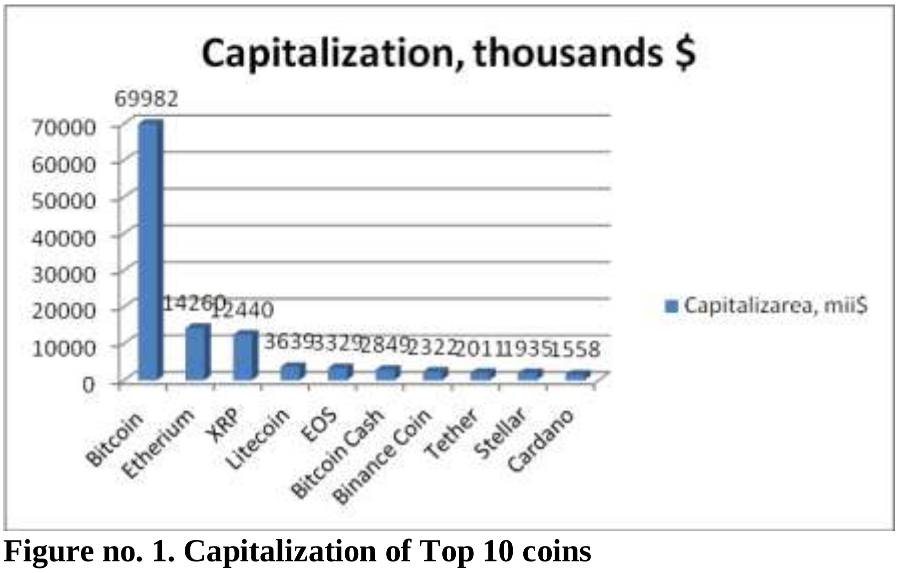

Figure no. 1. Capitalization of Top 10 coins
Source: Trading View 2019

Bitcoin remains the crucial and most valubale coin on market, its capitalization is 5 time higher than Etherium that is number 2 (Figure no.1).

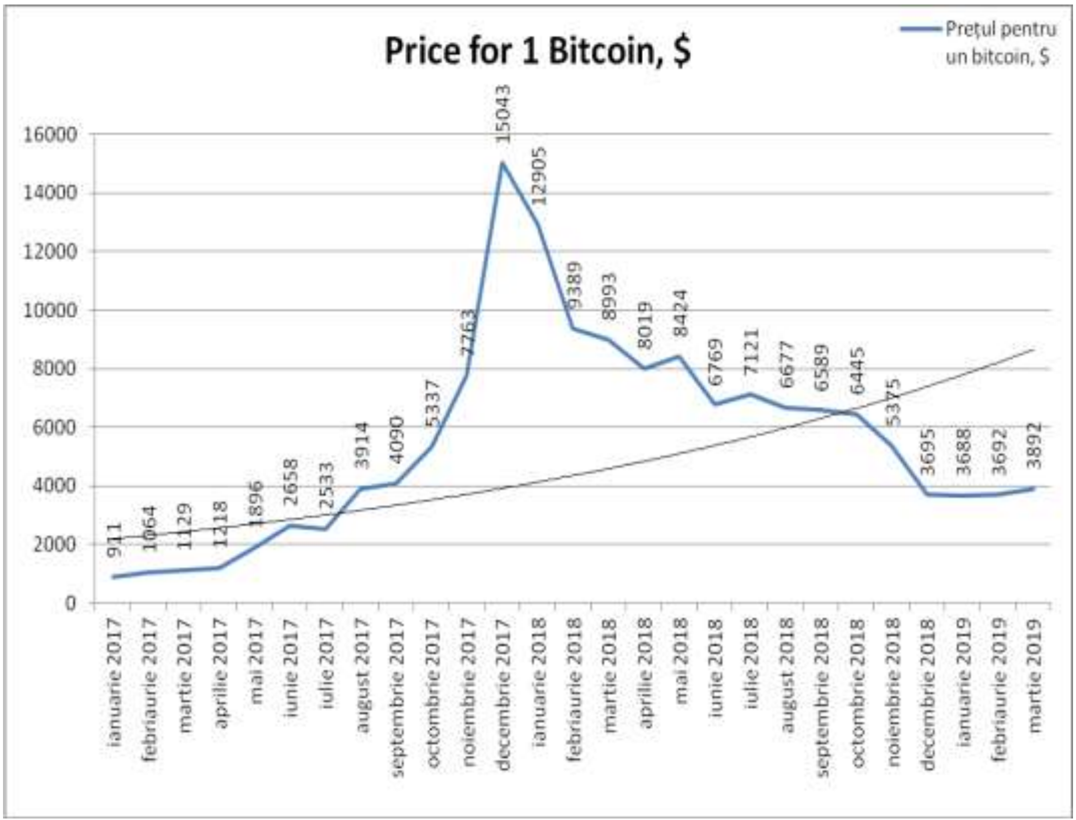

Figure no. 2. Evolution of Bitcoin price

Source: authors elaboration

3. Altcoin's and near future

The Internet has replaced some intermediaries. Now the block-chain is again ready to replace other intermediaries. But he is also ready to create new ones. It was the same with the Internet (Mohaiar and Buterin, 2017, pp.126-210).

At the moment there are over 900 alt-coins (alternative coins) created in different countries of the world with additional or improved functions that anihilate most Bitcoin's minuses such as transaction processing speed or imperfect data protection.

Bitcoin is not the only digital currency, although it was the first and most successful internationally, and has an overwhelming market share (98%) in terms of capitalization compared to other digital currencies. Bitcoin first earned in 2009, and until 2011 there were no alternative digital currencies, like Laitcoin, which is largely a bitcoin clone with minor changes to several settings (Tepper, 2015).

In order to solve the problem of data processing speed it was proposed to divide Bitcoin into several blocks, which led to the appearance of Bitcoin Cash.

Thanks to its technology besides foreign exchange operations, new services and new options can be added to bring benefits and added value for the economy and trade.

For example, Etherium develops a smart-contract system that exists in Bitcoin, but with an expanded posibilities, such as controlling the veracity of meeting all legal points and conditions in a contract due to the high complexity of exchange algorithms , due to this system scams and illegalities will be minimized.

Blockchain technology is sure to be future because it can be integrated into the current banking system. Interest in this technology is reflected by international financial institutions such as Visa and Mastercard as well as bank associations such as China UnionPay and S.W.I.F.T.

The technology provided to increase the technical possibilities of processing multiple operations in a time amount can be integrated into both domestic and international payment systems as well as in the commercial-buying, leasing, lease, rent or lending relationship with a high degree of safety, speed and low commission.

Monero, an altcoin based on CryptoNote technology, adds more encryption levels and is widely used in Darknet. Due to ring signature technology, transactions are absolutely anonymous because the signature issuer can not be identified. However, this feature requires 8 times more memory than Bitcoin.

The technology of smart-contracts can be used in high-price deals, like contracts with immoveble objects (houses, apartments). The subjects of the contract register the contract in the system with all the specified points, and the neural network does the monitoring of the contract and makes a decision on its legality and the integrity of the subjects. Depending on the degree of violation, a request will be sent to the pro-order forces.

A smart contract is a digital analogue of contractual obligations, reflecting cash flow in the blockchain. Smart contract technologies are designed to ensure that users comply with the terms of the contract. This is a kind of digital guarantee for the implementation of the contract. Conventionally, to break a smart contract is impossible (Karpilovskiy, 2018, pp.22-25).

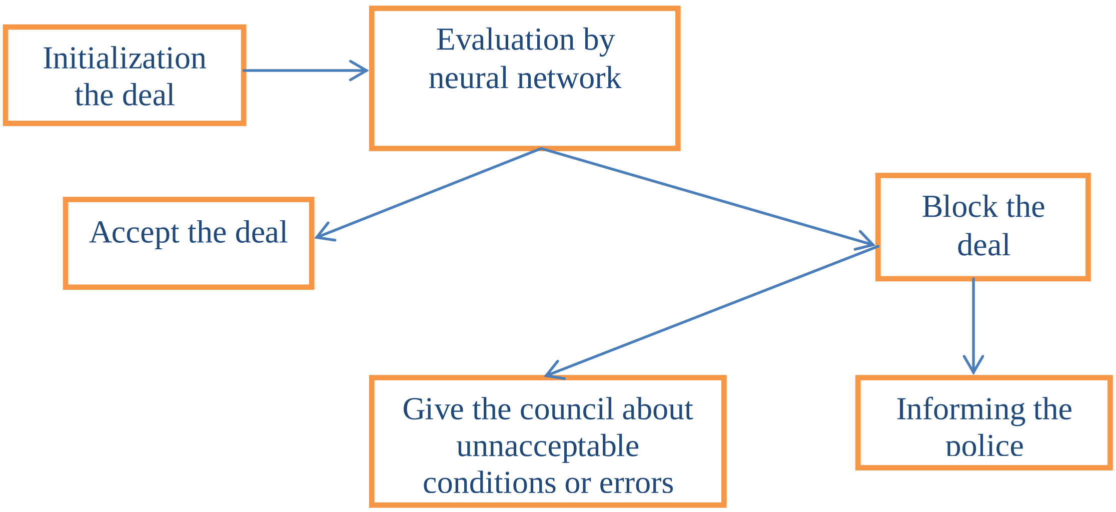

Figure no.3. Scheme of smart-contracts system with integrated neural network
Sourse: authors elaboration

4. Bitcoin threats

The price at Bitcoin has grown over the years, from cheap money to expensive money and so-called smart money. This money will only bring profit to those with financial and scholarly knowledge and practices. These players will decide the exchange rate. Whales have come into play and have earned profits since 2018, and in the future they will abdicate radical changes in the financial world of the world

Numbers booking network in hotels Expedia and Twitch stopped paying its services by cryptovalute, a sign of the fall of confidence in independent currencies.

Statistical data in recent years shows economic bubble features, similar to the smartphone market, which grew in the years 2014-2017, after which it signaled a significant decline.

Bitcoin's future is very vague from an economic point of view, for the benefit of this hypothesis is that Bitcoin as an investment object is only seen by venture capitalists because of the risk of lost capital and stock market volatility. In the Russian Federation Bitcoin was named the worst investment in 2018.

The number of Bitcoins is limited by 2 million, that is, it is also a limited currency and the lost virtual coins can not be restored.

Warren Buffett thinks the future is only block-chain technology, but not Bitcoin: "Block-chain is very important, but Bitcoin has not indispensable value. It does not produce anything, you can look at it all day, but there will not appear small coins or something like that. "

American economist and former chairman of the Fed Reserve Fund, Alan Greenspan, drew attention to such elements as the economic bubble, such as the rapid increase of Bitcoin with the subsequent massive decline. It is a classic model when when a new service or product comes into the market there is a stir, which leads to the price increase and the avalanche of new producers. Currently there are more than 900 crypt-coins with a capitalization from 70 billion to one thousand dollars.

The situation can be compared with the Dot-com crisis of 1995-2001, when mortgage papers have been devalued since the fall in the property price caused by the decrease in demand for this property. Of course, the breakdown of the reliable crypt-coin balloon can not lead to large economic regressions in the low percentage, about 3% of the GDP of the United States of America. The negative wave can only lead to investor losses and will not affect the world economy.

5. Conclusion

The aim of its article was to describe the new technology wat can be used in finance, commerce or management. This interest in cryptocurrency and block-chain is motivated by impact in progress acceleration of these new technologies.

Cryptocurrency in its independent and original appearance may disappear in next few years because of inexistent support from governments of first echelon states, but block-chain technology may become a new instrument for financial system and new commercial regulator through smart-contracts technology.

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PROGRESSIVITY VERSUS A FLAT TAX RATE IN COMBATING SOCIAL INEQUALITY?

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Abstract: *On the automatic stabilization capabilities of the progressive tax regimes much has been written and argued. Equally, the flat tax rate has often been indicated as a promoter and stimulator of business, but also as a factor for the perpetuation and widening of social inequalities. Therefore, the article reproduces some of the themes of previous articles trying to discern between the qualities and defects of the two types of taxation regimes: progressive or single quota. The empirical analysis on the data gathered for the EU28 countries following the two tax regimes is interesting and surprising and deserves further reflection. This analysis supports the results shown in the literature on progressive tax regimes, but equally points to a number of key tax elements that use the flat tax rate, investigating whether or not it acts as a regressive tax by its effect on the Gini coefficient.*

Key words: *automatic stabilization, EU28, social inequality.*
JEL classification: *H11, H24, E63, I38.*

1. Introduction

Regarding progressive quotas or regimes, it is often state their quality of support for the principles of fiscal equity, thus the contributions of those who earn income (or in the case of companies, profit) increasing with revenues or profits made. Proportional quotas or single rates (or flat tax rates) consider a fairly equal position in the face of taxes irrespective of the level of income or profit achieved. This flat tax rate is currently used only in 7 EU28 countries: Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary and Romania. Baltic countries such as Estonia, Latvia and Lithuania have been using this regime since the early 1990s and Romania since 2005. The relatively long period since the start of the flat tax rate implementation so far can outline any potential stabilizing or less stabilizing effects in the economy.

Therefore, a series of questions arise about the two types of tax regimes: What were the desired effects? Was desired a transition from equity to efficiency or vice versa? Was desired a tax regime designed to support social equality? Looking at the Central and Eastern European countries, part of the responses may naturally come from the analysis of the surprisingly large emigration of the young people able to work from these countries. Another part of the answers can also come through investigating the idea of delayed social equity, initially materializing in the support of businesses through reduced rates of corporate income tax and flat income tax rates. Theoretically, they should allow accumulations of capitals that, by investing, to be subsequently job generators and, ultimately, social equilibrium and social equity generators.

The lack of an integrated system of global income taxation has often made the approach towards progressive quotas less wanted for some policy makers and therefore the use of the flat tax rate has become the most attractive option. But the flat tax rate usually has widened the social gap in each and every country that has used this regime. Equally, this type of tax regime may have contributed to increasing the gap between the (still underdeveloped) eastern and western European continent. So the eastern Europe countries opted generaly for the flat tax rate, while the western Europe countries opted for the progressive quotas.

An interesting discussion is whether flat tax rate acts as a regressive tax. We recall that a regressive tax imposes a higher tax burden on the poor, with lower incomes, in favor of the population with higher incomes or wealth. This, theoretically, allows an accumulation of capital, to add more to their wealth by acquiring additional luxury products, buying new shares, saving and investing more. But if this does not happen in the formula desired by the fiscal-budgetary decision-makers, the phenomenon can be translated into a poor administration: the lack of fiscal effectiveness and, moreover, social inequality.

Therefore, generally a regressive tax rate is aimed at a higher range of low-income people. Regressive rates are seldom used for revenue taxation, but are primarily aimed at managing and directing consumption, generally being used as taxes on sales of goods and services. Just to be less regressive, they even seek to avoid taxing basic commodities such as food, housing, medical services and medicines etc. Excise duties are a concrete example of a regressive tax acting as a tax imposed on each item sold and which may affect the poorest population as far as it often uses those products subject to excise duty. As poor population is more vicious by using alcohol, gambling, tobacco and other harmful products subject to excise, the greater is the social inequality. On the other hand, gasoline excise duties and import tariffs (except in the case of free trade agreements) and the consumer tax called value added tax can not be avoided by anyone, regardless of whether the majority population in a country is predominant poor or rich, or whether it is vicious or less vicious.

In order to avoid the potential exhaustion of resources and to better protect the environment, some countries resort to an increasement of the excise duty on fossil fuels. This approach, in addition to consumers and public outrage, does not solve the environemental problem, risking an avalanche of other adverse effects from rising inflation and ending with the emergence of social and political crises. Solutions to environmental issues should not only be fiscal, but should first of all start from contingent on negative effects by reforestation, promoting green cities, green cars and gren industries. Also, in addition, in the idea of a more judicious management of resources and social equity, we can hypothesize that if the trade deficit is significantly in a country, this aspect certainly affects the welfare of the population and can lead to the deepening of the social inequalities.

Taking these issues into account, there is a tendency for translation from higher taxation of income and profits to higher consumption taxation, i.e. a shift from direct taxation to indirect taxation, while pursuing fiscal simplification. This approach is also found in the idea of a flat tax rate of the population income. However, due to its effect on lowering social equity, low-income people supporting a higher tax burden, it is interesting to investigate whether the single tax really acts as a regressive tax. Therefore, the article investigates this progressive-regressive dilemma from the perspective of equity in EU28 countries, knowing that a regressive tax increases social inequality and a progressive tax reduces it.

2. Description of the Problem and Literature Overview

The international and regional literature on the progressive tax is quite vast, but it cannot be said the same about the flat tax rate impact on inequality. The simulation is the main method of the most studies, and they start usually with the assumption of budget revenue neutrality. Only few studies (e.g. Davies and Hoy, 2002 - for the ipothetical case of United States; Chipman, 2004 - for the ipothetical case of Australia, Mihăilă, N., 2010, for the Romania) regard the flat tax rate as capable of reducing inequalities and that the flat tax rate is more simplified, more transparent, a much fairer and more efficient system and that can attract foreign investments due to the competitiveness of the taxation rate.

In the present, personal income tax (PIT) structures have lower top statutory marginal tax rates, fewer tax brackets and reduced complexity than 25 years ago, shifting slightly towards flat rate income taxes (Sabirianova Peter, Buttrick and Duncan, 2010). Also, in Duncan and Sabirianova Peter (2012) empirical study, it is shown that progressivity reduces observed inequality in reported gross and net income and it has a smaller impact on inequality in consumption. They find also that progressivity changes at the top of the tax schedule are more effective in reducing income inequality than progressivity changes at the bottom and that progressivity has a larger negative effect on net income inequality than on gross income inequality.

In Voinea and Mihăescu (2009) study, there is analysed the flat tax impact on inequality in Romania comparing the year 2005 against 2004. They found that, the higher the number of dependents are, the lower the flat tax gains are and the higher the gross wage is, the higher the flat tax gains are. Also, the inequality indicators calculated by the authors show that the flat tax determines an increase in inequality, also reflected in Lorenz curve which reflected that the richest 20% of the population appears as the clear winners of the flat tax system. At the same time, they found that most of the flat tax gains (on average 74%) were spent, instead of saved. Finaly, Voinea and Mihăescu (2009) recommend the replacement of the flat tax with a progressive tax, with two or three brackets, with large differences between them, serving for decreasing inequality and for automatic stabilization for prices and profits.

3. Data Sources and Methodology

Resuming a series of issues and notations present in other previous personal articles, the paper aims to investigate whether the flat tax leads or not to the increase of social inequality, thus whether or not it acts as a regressive tax. Using Eurostat data to quantify revenue inequality, we used the Gini coefficient of equivalent disposable income. At the same time, the article aims to highlight whether a progressive tax regime contributes to greater social equity.

To become more specific, for progresivity, only data on countries with a tax regime with 5 and more than 5 personal income tax brackets were used. The analysis period is 2007-2017 for both, progressive and flat tax rate countries. Econometric processing uses statistics from the European Commission and Eurostat. The correlations relate to elements such as: NoB - number of brackets (thresholds), TSPITR (%) – top statutory personal income tax rate and TSCITR (%) – top statutory corporate income tax rate, TGGR (% GDP) - the share of total general government revenues in GDP, TGGE (% GDP) - share of total general government expenditure in GDP, VIPI - Volume index of production (Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply, unadjusted data, Index, 2015=100), FCEH (% GDP) - Final consumption expenditure of households and non-profit institutions serving households (GDP), UR3YA (%) - Unemployment rate - 3 year average, TB (mil.Euro) - Trade balance in million ECU/EURO and Gini coefficient of equivalised disposable income - EU-SILC survey, which should capture the issue of social inequality.

It should be noted that the results should be interpreted with caution because the systematization at the level of the groups of states (e.g. the group of progressive and flat tax rate countries) allows a high degree of heterogeneity of information.

4. Results Obtained

Starting the analysis from of systematization of data and the elaboration of correlation matrices on the one hand for countries with progressive taxation of personal income, and on the one hand for flat tax rates countries, we can select, in order to better highlight the effects of progressiveness, only countries with 5 and more than 5 personal income tax brackets. These countries are Belgium, Spain, France, Italy, Cyprus, Luxembourg, Malta, Austria, Portugal, Slovenia and Finland. With regard to Figure no. 1, we note that there is a slight upward trend in the top personal income tax rate - TSPITR for these countries, which confirms the theory that progressive taxation, although relatively modest, reduces social inequality. Element reinforced by the evolution, also still modest, of the correlation between the number of thresholds (NoB) and the evolution of the Gini coefficient (see Table no.1).

Table no. 1. The correlation matrix of elements selected for a series of EU28 countries (Belgium, Spain, France, Italy, Cyprus, Luxembourg, Malta, Austria, Portugal, Slovenia and Finland) with five and more than five personal income tax brackets for the 2007-2017 period

	RGDPGR (%)	*Gini coef*	*TSPITR (%)*	*TSCITR (%)*	*TGGR (%GDP)*	*TGGE (%GDP)*	*VIPI*	*FCEH (%GDP)*	*UR3YA (%)*	*TB (mil. EURO)*	*NoB*
RGDPGR (%)	1										
Gini coef	-0.16	1									
TSPITR (%)	-0.17	-0.06	1								
TSCITR (%)	0.08	0.12	0.34	1							
TGGR (%GDP)	-0.10	-0.42	0.68	0.26	1						
TGGE (%GDP)	-0.38	-0.22	0.72	0.24	0.83	1					
VIPI	0.24	0.12	-0.37	-0.30	-0.21	-0.37	1				
FCEH (%GDP)	-0.25	0.43	-0.05	-0.27	-0.22	0.08	0.21	1			
UR3YA(%)	-0.14	0.62	0.24	0.02	-0.27	0.00	-0.15	0.42	1		
TB(mil. EURO)	0.03	-0.28	0.00	-0.25	0.02	-0.12	-0.16	-0.06	-0.20	1	
NoB	0.10	-0.13	-0.03	-0.01	0.05	-0.17	-0.18	-0.75	-0.40	0.10	1

Source: Eurostat data and the European Commission (2018), author's processing and conception.

Notes: RGDPGR (%) - real GDP growth rate, Gini coef – Gini coefficient of equivalised disposable income - EU-SILC survey, TSPITR(%) - Top statutory personal income tax rates (including surcharges),, TSCITR (%) - Top statutory corporate income tax rates (including surcharges), TGGR (% GDP) - the share of total general government revenues in GDP, TGGE (% GDP) - Total general budget expenditure (% of GDP), VIPI - Volume index of production (electricity, gas, steam and air conditioning supply, Unadjusted data, Index, 2015 = 100), FCEH (% GDP) - UR3YA (%) - Unemployment rate - 3 year average, TB (mil.Euro) - Trade balance in million ECU / EUR, NoB- number of brackets (thresholds) of personal income tax rate.

Noteworthy, given the downward trend in the top statutory corporate tax rate (TSCITR,%), both in progressive and flat tax rate countries, the positive correlation between TSCITR and the Gini coefficient reflects its contribution to reducing social inequality. If it is relatively normal and expected that the unemployment rate expressed as a three-year average (UR3YA, %) evolves in the same direction as the evolution of social inequality proving a relatively strong relation (0.62), not the same can be said about the volume of production index (VIPI) and final consumption expenditure of households and non-profit institutions serving households - FCEH (% of GDP). This would indicate that domestic production does not support as would normally should the reduction of social inequality, and household final consumption expenditure is not a limiting factor, but sometimes, of deepening the social inequality.

However, this analysis should be interpreted cautiously in the sense that, as a result of the global economic and financial crisis and other second-round crises and effects in the Western EU28 countries, both VIPIs and FCEHs have not evolved towards increasing in all the states analyzed, and in this case the direct link to the Gini coefficient should be viewed positively, reducing social inequality.

Equally, with regard to the FCEH (%), the percentage of correlation with the Gini coefficient is much lower compared to the countries with flat tax rate on personal income.

Thus, returning to the countries with a flat tax rate on personal income, regarding Figure no. 1, we notice that in their case, the tendency for the evolution of TSPITR (%) (which in this case is the flat tax rate) is generally a reduction. This shows that the negative correlation between TSPITR (%) and the Gini coefficient (see Table no.2) actually contributes to increasing social inequality, reinforcing the possibility of a rather regressive effect of the single quota.

Table no. 2. Matrix of correlation between selected items for Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary and Romania, with flat tax rate on personal income for 2007-2017 period

	RGDPGR (%)	*Gini coef*	*TSPITR (%)*	*TSCITR (%)*	*TGGR (%GDP)*	*TGGE (%GDP)*	*VIPI*	*FCEH (%GDP)*	*UR3YA (%)*	*TB (mil. EURO)*
RGDPGR (%)	1									
Gini coef	0.08	1								
TSPITR (%)	-0.07	-0.27	1							
TSCITR (%)	-0.12	-0.62	0.49	1						
TGGR (%GDP)	-0.12	-0.69	0.34	0.53	1					
TGGE (%GDP)	-0.41	-0.65	0.36	0.48	0.83	1				
VIPI	0.56	0.12	-0.21	-0.30	-0.04	-0.38	1			
FCEH (%GDP)	0.00	0.80	-0.20	-0.72	-0.71	-0.50	-0.03	1		
UR3YA (%)	0.05	0.31	0.08	-0.21	-0.07	0.00	-0.03	0.28	1	
TB(mil. EURO)	-0.16	-0.74	0.06	0.41	0.64	0.50	0.14	-0.76	-0.07	1

Source: Eurostat data and the European Commission (2018), author's processing and conception.

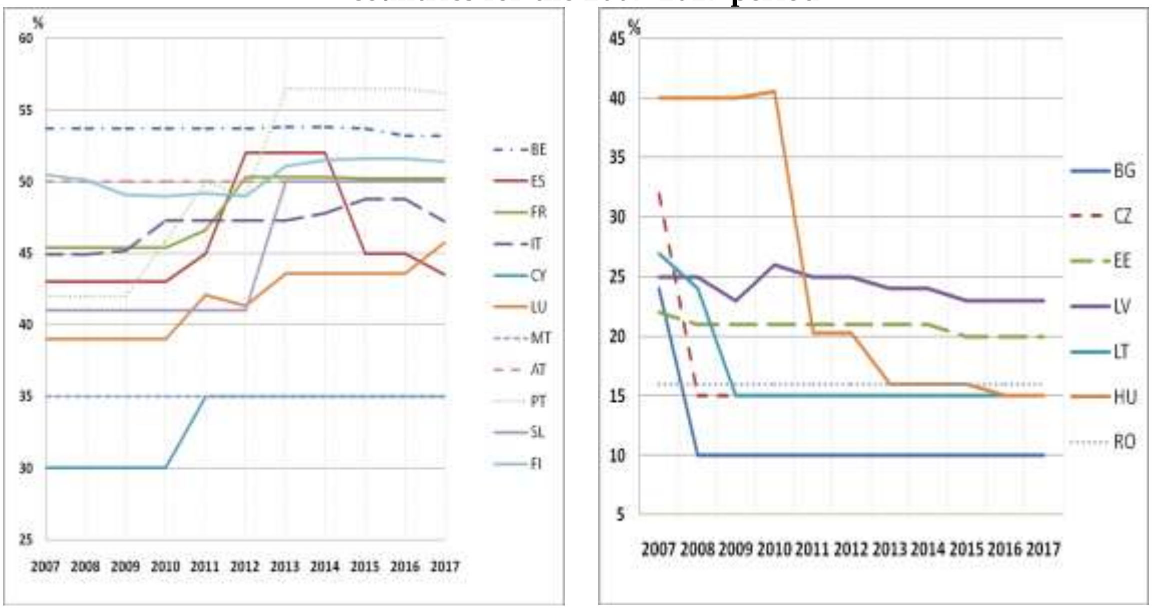
Notes: RGDPGR (%) - real GDP growth rate, Gini coef – Gini coefficient of equivalised disposable income - EU-SILC survey, TSPITR(%) - Top statutory personal income tax rates (including surcharges),, TSCITR (%) - Top statutory corporate income tax rates (including surcharges), TGGR (% GDP) - the share of total general government revenues in GDP, TGGE (% GDP) - Total general budget expenditure (% of GDP), VIPI - Volume index of production (electricity, gas, steam and air conditioning supply, Unadjusted data, Index, 2015 = 100), FCEH (% GDP) - UR3YA (%) - Unemployment rate - 3 year average, TB (mil.Euro) - Trade balance in million ECU / EUR, NoB- number of brackets (thresholds) of personal income tax rate.

The aspect is also reinforced by the relatively strong negative correlation between TSCITR (%) and Gini coefficient, with a TSCITR (%) downward trend observed in the group of analyzed countries. At the same time, the positive correlation with the unemployment rate expressed as a three-year average (UR3YA (%)) although it is normal to evolve in the same sense as the Gini coefficient, yet the percentage is only half compared to the similar percentage for the countries with a progressive tax regime, thus the unemployment rate expressed as an average of three years is not a major determinant of reducing or increasing social inequality.

Referitor la Indicele volumului producției (VIPI), tendința acestuia este vădit de creștere la nivelul tuturor statelor cu cotă unică privind impozitul pe venit personal, aspect care ar indica că producția internă nu susține așa cum ar fi normal reducerea inegalității sociale. În privința cheltuielilor de consum final ale gospodăriilor FCEH (%), evoluția acestora agregată la nivelul acestui grup de țări cu cotă unică indică mai degrabă o tendință de reducere, ceea ce ar indica mai degrabă un efect direct, pozitiv și puternic (0,80) în raport cu reducerea inegalității sociale.

Regarding the Volume index of production (VIPI), it is obvious the growth trend for all the states with flat tax rate on personal income, which would indicate that domestic production does not support the reduction of social inequality. Concerning final consumption expenditures of households FCEH (%), their aggregate evolution in this group of countries with flat tax rate on personal income indicates rather a downward trend, which would suggest a direct, positive and strong effect (0.80) in terms of reducing social inequality.

Figure no. 1. TSPITR (%) for a series of EU28 countries with five and more than five personal income tax brackets and for flat tax rate on personal income countries for the 2007-2017 period



Source: data from European Commission (2018), author's processing and conception. Note: TSPITR(%) for Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary and Romania is of course the flat tax rate

For flat tax rate countries, the regression equation expressed in a simplified form is: Gini coef = f (TSPITR, TSCITR) (see Table no.3). Analyzing the value of the determination coefficient or R2, which is used to measure the intensity of the correlation between the endogenous variable and its determinants, it is noticed that the value of 0.389 is not very good. At the same time, with respect to adjusted R2, it is equal to 0.373 in the sample with 77 observations, suggesting that there is not a very strong correlation between the variables in the model.

It can be seen that, based on the results in Table no. 3, for TSPITR (%), which is actually the flat tax rate, the coefficient is not significantly different from zero, at the same time this indicator has an associated probability or a p-value well above 0.05. Only TSCITR (%) has a p-value probability far below 0.05, more precisely of 3.02825988860478E-08, which confirms that only this is significant in the total statistical population and that only for this indicator, the null H0 hypothesis is rejected.

Thus, for the TSCITR (%) the model was correctly specified, identified and evaluated, and therefore, it can be considered that the influence on the dependent variable

(Gini coefficient) comes only from this factor. This result, although for better substantiation requires additional elements of analysis, reflects, however, the rather indirect and regressive aspect of the profit tax (we recall that during the analysis period the trend of the TSCIR (%) was rather declining and therefore the negative correlation with the Gini coefficient would indicate an increase of that).

Table no. 3. The result of the regression equation for the relation between Gini coefficient, TSPITR (%) and TSCITR (%) for Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary and Romania with a regime of flat tax rate on personal income for the 2007-2017 period

Regression Statistics	
Multiple R	0.624
R Square	0.389
Adjusted R Square	0.373
Standard Error	3.538
Observations	77

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	590.365	295.183	23.584	0.000
Residual	74	926.216	12.516		
Total	76	1516.581			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	44.478	1.856	23.964	0.000	40.780	48.177	40.780	48.177
TSPITR (%)	0.027	0.067	0.409	0.684	-0.105	0.160	-0.105	0.160
TSCITR (%)	-0.759	0.123	-6.192	0.000	-1.004	-0.515	-1.004	-0.515

Source: Eurostat data and the European Commission (2018), author's processing and conception.
Notes: Gini Coef - Gini coefficient of equivalised disposable income, TSPITR(%) - Top statutory personal income tax rates (including surcharges), TSCITR (%) - Top statutory corporate income tax rates (including surcharges).

5. Conclusions

Literature mentions and demonstrates the qualities of progressive tax rates both in terms of better automatic stabilization and in reducing social inequalities. This is less relevant in the case of countries with single or proportional tax regimes. Therefore, the article investigates econometricaly for 2007-2017 period, the link between social inequalities and a series of macroeconomic and fiscal indicators (top personal income tax rate and top corporate tax rate). The data used are from Eurostat and the European Commission.

In order to better capture progressivity, we only analyzed the states with and over five brackets of personal income tax, and in the case of regression, hypotetically, we associate the seven countries of the EU28 with a flat personal income tax rate with the countries with regressive fiscal effect. With 121 statistical observations for countries with progressive quotas and 77 statistical observations for flat tax rate countries using a panel-based systematization, the results can be considered credible.

The results, albeit modest in terms of intensity, confirm the theoretical hypotheses of the literature, the increase of progressivity being negatively correlated with the social inequality and positively correlated with the economic growth rate. With regard to the flat tax rate, the results confirm the hypothesis of a rather unfavorable effect in terms of social equality. Although it is assumed that the effect of corporate tax rate comes to reinforce the positive effects of personal income tax rate, in the case of flat tax rate countries it is rather to strengthen the negative effects of personal income tax on social equity, outlining the necessity and opportunity of some revision of the tax system in these countries.

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INFLUENCES OF INSTITUTIONAL FACTORS ON THE DIMENSION OF FISCAL AND BUDGETARY MULTIPLIERS IN ROMANIA FOR THE PERIOD 2006 – 2017

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Abstract. *In this paper, an assessment of the influences of institutional factors, on the nature of the structural and conjunctural characteristics of the economy, will be made on a set of fiscal and budgetary multipliers, for the period 2006 - 2017, for Romania. The research methods used in the paper refer to evaluations of the theory, studies and interpretations in the literature regarding the fiscal and budgetary multipliers, the methodological analysis, the economic and institutional mechanism and the interpretation of economic significance. The results expected to be obtained can be concretized in an evaluation table of the impact of the fiscal-budgetary multipliers, based on the influence of the mentioned factors.*

Key words: *multiplier, tax, budget, economic cycle.*
JEL classification: *E60, E61, E62.*

1. Research stage

The topic of fiscal policy contribution to GDP growth through multipliers is presented in the literature and addressed from different perspectives such as: sectoral, where the impact of a certain fiscal and budgetary multiplier is calculated and evaluated; on the dynamics of fiscal and budgetary multipliers in relation to the phases of the economic cycle (Auerbach et al., 2012; Canzoneri et al., 2012); in relation to their impact on economic growth (Hemming et al., 2002); in relation to the incidence of forecast errors on the fiscal-budgetary multipliers (Blanchard and Leigh, 2013).

As for the size of fiscal and budgetary multipliers in developing countries, there is a relatively small number of approaches (Battini et al., 2014), which concludes that their size is small and insignificant, being dependent on a number of structural factors, such as the degree of opening of the economy, the exchange rate regime (Juessen et al., 2013), and the degree of indebtedness.

Regarding the persistence of the multiplication effect generated by the fiscal-budgetary impulses, it is approached from the perspective of its frequency (single or permanent) and the results find that the persistence of the impulse, either single or permanent, is about 5 years, the impact being nonlinear, usually with the smallest impact in the second year from the moment of impulse generation (Baum et al., 2012).

Regarding the methodology for calculating fiscal and budgetary multipliers, it is appreciated that better identification of fiscal policy contribution to GDP growth through multipliers may play a key role in delivering more realistic macroeconomic forecasts. However, there are certain difficulties in the accuracy of the estimates, namely the extraction of the pure effect of fiscal-budgetary impulses on GDP.

We note that the importance and role of fiscal and budgetary multipliers is not only about contributions to the effects on economic dynamics but they can make positive contributions to the design of the fiscal-budgetary strategy in order to set achievable targets.

Having these references on the existing approaches on this topic in the literature, our orientation in the elaboration of the paper aims to evaluate the influences of some institutional factors in the literature on the size of fiscal and budgetary multipliers in Romania, calculated for the period 2006-2017.

2. About the concept of fiscal and budgetary multiplier

The fiscal-budgetary system is an economic system associated with the real economy (as the banking-monetary system is associated with the nominal economy), having more properties, such as: it exhibits a certain rigidity (changes to fiscal-budgetary rules or methodologies can be done only by the approval of Parliament or, in extreme cases, the Government Emergency Ordinance); refers to public financial funds and is (through fiscal-budgetary policy) an important macroeconomic adjustment tool.

In the fiscal-budgetary system, the inputs are normative variables, on the one hand, and behavioral, on the other.

In the fiscal-budgetary system, the inputs are normative variables, on the one hand, and behavioral, on the other.

The regulatory variables are: tax rates or rates on social contributions, tax bases, exemptions from budgetary obligations, deferrals and / or exemptions. All this is the input of the fiscal inputs. There is also a vector of budgetary input containing components such as budget commitments; budget expenditure ceiling and normative budget expenditure.

Behavioral variables are: average or marginal inclination towards consumption; the average or marginal inclination towards saving; the mean or marginal inclination towards importation; behavioral tendencies of the Engel type.

As far as the output of the fiscal-budgetary system is concerned, it should be seen as an effect of the input on the real economy variables: GDP; consumption; investment; productivity; unemployment; balance of trade balance; balance of services balance.

Depending on the way the output with the normative input is associated, it is possible to determine fiscal and budgetary multipliers defined as follows:

- the fiscal multiplier - is calculated by the ratio between the effect in the most aggregated real economy and the change of a regulatory input component specific to the budgetary revenues;
- the budgetary multiplier - is calculated by reporting the most aggregate output of the real economy to the volume of government expenditures, especially investment, as they only have a multiplier effect on GDP;
- the fiscal - budgetary multiplier - is calculated by reporting the most aggregate output of the real economy to a combination of fiscal-budgetary variables.

3. Institutional factors influencing the fiscal and budgetary multipliers

Two categories of determinants are identified in economic theory and specific literature. The first one refers to the structural characteristics of the country that influence the responses of the economy to the fiscal-budgetary impulses under conditions of economic stability. These are**:**

- *the degree of opening of the economy* - the lower import trend can generate higher fiscal and budgetary multipliers, as the influence of imports on domestic production is reduced (the demand is mostly covered by the domestic market) and the fiscal-budgetary impulses have a more pronounced effect on GDP;
- *the effectiveness of public spending and revenue management* - the size of fiscal and budgetary multipliers may be lower when there is a low level of tax revenue collection, insufficient allocation and inefficient use of public spending in different areas;
- *the exchange rate regime* - the flexible exchange rate regime may reduce the size of fiscal and budgetary multipliers, as exchange rate fluctuations can mitigate the effects of fiscal policy impulses on the economy;
- *the level of total public debt* - a high level of total public debt may generate a lower multiplier effect, as fiscal-budgetary impulses (fiscal policy in general) do not enjoy

credibility in the economic environment, but also due to the fact that possible positive effects can be largely absorbed by the costs of public debt repayment;

- *rigidity of the labor market* - a rigid labor market can generate larger multipliers if this rigidity is also transferred to labor remittance, because a reduced flexibility of labor remuneration tends to focus the effects of more fiscal and budgetary impulses on production;
- *the size of automatic stabilizers* - the existence of automatic stabilizers in an economy and, in particular, their large manifestation, can reduce the size of tax-budgetary multipliers, as the effects of fiscal and budgetary impulses are attributed to automatic stabilizers, thus reducing their effect) on GDP.

The second category of factors refers to the conjuncture aspects that influence the size of the fiscal-budgetary multipliers. These are:

- *the degree of adjustment of monetary policy to fiscal-budgetary impulses* - if monetary policy accommodates fiscal-budgetary impulses, multipliers tend to have higher values. Here is the question of the dominance of one of the two macroeconomic adjustment policies. If fiscal policy is dominant, then the monetary impulse is accommodated to the fiscal-budgetary impulse, and if monetary policy is dominant, then the fiscal-budgetary impulse is accommodated to the monetary one;
- *the state of the economic cycle* - the state of the economic cycle at one point (expansion, recession) can influence the size of the multipliers. In the expansion phase of the economic cycle, multipliers tend to have smaller dimensions, and in the recession phase, they tend to have larger dimensions. One explanation is that a fiscal-budgetary impulse is more effective during the recession than in the expansion period. In the expansion phase, the economy tends to get closer to its potential level and a constraint (a limitation of space) occurs in the manifestation of multiplier effects, while in the recession phase there is no such constraint, and the fiscal-budgetary impulses can is manifested with amplitude, which is transmitted in the multiplier dimension and, consequently, on the economic cycle trajectory (orientation to the expansion phase).

For the analysis and interpretation of the size of the fiscal and budgetary multipliers calculated for the period 2006-2017 in Romania, presented in the annex, we will produce a table (Table 1), which will present the annual state of each exogenous factor for Romania and will analyze possible influence on multiplier size. For the annual evaluation of each factor, the following acronyms will be used: high - R; medium - M; low - S.

In the penultimate column on the right side of the panel, the multiplier effect will be shown, assessed from the point of view of the factors described above for each factor, by the following qualifiers: positive; neutral and negative. In the last column on the right side of the picture, we try to assign each factor a score of importance valued on a scale from 1 to 5, where 1 represents the minimum score and 5 the maximum score.

The attribution of scores for the category of structural factors was based on the following arguments:

- for factors such as *the degree of opening of the economy, respectively the effectiveness of public expenditures and the administration of revenues*, were awarded higher scores 5 and 4 respectively, as their variation generates direct changes on aggregate demand and implicitly multiplying effects on production;
- for the factors of *the exchange rate regime and the total public debt level*, the same score was assigned, respectively, 3 because their variation first generates direct influences, in general, on the first two factors (the degree of opening of the economy, respectively the efficiency of public expenditures and the administration of revenues ,

of the budget deficit) and thus produce indirect changes to aggregate demand and, implicitly, multiplying effects on production;

- for *the labor market rigidity factors and the size of the automatic stabilizers*, a relatively low score of 2 was attributed, because they are factors with a high complexity of functioning (manifestation) and their changes are non-discretionary effects, occurring in the medium term and long and implicitly with indirect and reduced multiplication effects on production.

Table no. 1. Presentation of the annual state of the exogenous (institutional) factors on the two categories, their influence on the size of the multipliers and the importance score in Romania for the period 2006-2017

Factors	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**The influence**	**Assigned score**
Structural factors														
The degree of opening of the economy	R	R	R	R	R	R	R	R	R	R	R	R	negative	5
The effectiveness of public spending and revenue management	S	S	S	S	S	S	S	S	S	S	S	S	negative	4
The exchange rate regime	M	M	M	M	M	M	M	M	M	M	M	M	neutral	3
The level of total public debt	S	S	S	S	S	S	S	S	S	S	S	S	positive	3
Rigidity of the labor market	M	M	M	M	M	M	M	M	M	M	M	M	neutral	2
The size of automatic stabilizers	S	S	S	S	S	S	S	S	S	S	S	S	positive	2
Conjuncture factors														
The degree of adjustment of monetary policy to fiscal-budgetary impulses	R	R	R	R	R	R	R	R	R	R	R	R	positive	3
The state of the economic cycle	M	M	M	M	M	M	M	M	M	M	M	M	neutral	2

Source: the author

The assignment of scores for the category of conjuncture factors was made considering the short-term character which we consider cannot be attributed to higher scores, with the following arguments:

- for the factor of *the degree of adjustment of the monetary policy to the fiscal-budgetary impulses* the score 3 was attributed, as the fiscal-budgetary impulse is dominant, being specific to the real economy, in which the fiscal-budgetary multipliers are manifested. The non-functioning of the fiscal-monetary mix does not eliminate the multiplication effects of the fiscal-budgetary impulse, but only diminishes them, and the functioning of the mix generates inverse effects. Therefore, the average score (+) is judged to be justified;
- for *the economic cycle status factor*, the score 2 was attributed, as this factor was considered to have the most pronounced conjuncture, and this conjuncture (which would influence the size of the fiscal-budgetary multipliers) can be generated precisely by the evolution of the structural factors. If their evolution maintains the economic cycle in the state of stability, with expansion tendencies, the influence of the economic

cycle on the size of the multipliers is very low and vice versa. Therefore, given the temporary nature and the context of the influence of the state of the economic cycle on the variation of fiscal-budgetary multipliers, the attribution of the score 2 is justified.

4. Conclusions

We note that, in terms of the ratings attributed to the influence of each factor in the structural factors category on the multipliers, there is a steady state (two positive, two neutral and two negative). Regarding the cumulative scores on the three ratings in the structural factors category, the negative influence score is higher (9) the scores recorded by the other two influence ratings (5).

On the basis of the results of the two ways of assessing the structural factors on the size of the multipliers we find a tendency of negative influence of the structural factors on the size of the fiscal and budgetary multipliers in Romania for the period 2006-2017.

In the category of conjuncture factors, from the point of view of the qualities attributed to the influence of each factor on the multipliers, there is recorded a positive influence (a positive and a neutral one). Also, regarding the scores on the two qualifiers, the positive influence score is higher (3) the score scored by the neutral rating (2).

Based on the results of the two ways of assessing the short-term factors on the size of the multipliers, we find a positive influence on the fiscal and budgetary multipliers in Romania for the period 2006-2017.

In trying to introduce each of the fiscal and budgetary multipliers calculated by this way of analyzing and assessing the influence of the institutional factors on their size, it was found that there are no specific influences, but the resulting findings are general and valid for all of them. However, we do not exclude possible influences of the institutional factors on the size and amplitude of the multipliers, which could be identified by more refined methods of analysis and evaluation.

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Annex 1. Multiplier of total gross fiscal pressure, total expenditures of BGC, public health expenditures, public expenditures for education, public expenditures for human capital and expenditures for public investments in Romania for the period 2006-2017

Multipliers / years	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Multiplier of total gross fiscal pressure (variation rate)	0.20	-2.67	-25.00	0.00	0.25	0.75	3.00	-2.33	-5.00	1.75	-0.88	-1.08
Multiplier of total expenditure of BGC (absolute variation)	2.17	2.19	2.50	-2.03	1.46	3.29	59.42	10.81	2.72	2.10	5.72	4.39
Multiplier of total expenditure of BGC (variation rate)	0.72	0.77	0.93	-0.77	0.58	1.31	23.37	4.03	0.96	0.74	2.07	1.54
Multiplier of public expenditure on health (absolute variation)	31.80	13.17	26.05	-6.82	6.47	24.77	-84.62	15.40	26.36	13.91	53.19	32.77
Multiplier of public expenditure on health (variation rate)	0.82	0.35	0.94	-0.25	0.26	1.03	-3.50	0.59	1,06	0.56	2.23	1.33
Multiplier of public expenditure on education (absolute variation)	15.17	36.96	16.28	4.19	-1.21	5.95	-6.26	426.00	14.11	24.36	8.08	7.21
Multiplier of public expenditure on education (variation rate)	0.55	1.51	0.62	0.18	-0.05	0.20	-0.26	12.68	0.39	0.73	0.25	0.26
Multiplier of public expenditure on human capital (absolute variation)	10.27	9.71	10.02	10.88	-1.48	4.80	-5.83	14.86	9.19	8.85	7.01	5.91
Multiplier of public expenditure on human capital (variation rate)	0.64	0.66	0.75	0.87	-0.12	0.36	-0.48	1.01	0.63	0.62	0.51	0.46
Multiplier of public expenditure on investment (absolute variation)	6.28	7.32	18.18	-39.02	-0.70	12.98	12.34	-14.51	-30.69	74.19	-10.57	-479.95
Multiplier of public expenditure on investment (variation rate)	0.34	0.52	1.52	-3.03	-0.06	0.92	0.88	-1.04	-1.91	4.30	-0.58	-21.78

Source: calculations by the author

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METHOD TO FIX THE PRICE FOR "YOUR HOME" CREDIT AT RAIFFEISEN BANK

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Abstract: *The price is an important element of the marketing mix that can not be fully controlled through the marketing function and an indication of value for both consumers and banking service providers. It has a leading role in ensuring the creditworthiness of the credit institution. Both directly and especially closely related to costs, the price determines the level and evolution of the supply of banking products and services. The paper aims to investigate the pricing strategies of the banking companies in order to highlight the role and importance of the price in the financial-banking marketing, to identify the factors influencing the formation of the price of financial-banking services, to analyze the main pricing strategies in the banking activity, in particular, to set out how to fix prices within Raiffeisen Bank.*
Key words: *credit, effective annual interest rate, margin, financial-banking marketing, price.*
JEL Classification: *G21, E43.*

1. Introduction

Establishing a fair price, both for the market and for competition, is a significant element in the banking sector. Another important factor to consider is that banks not only set their prices for individual services but also coordinate their package service prices. As competition in banking has increased, setting fair prices has become an essential element of marketing strategy.

The objectives of the study are:

- Description of the nature, role and importance of the price in financial-banking marketing;
- Analysis of the ways of setting the price of financial-banking services;
- Highlighting the main price strategies in banking;
- Determining the pricing arrangements for different banking products and services;
- Identifying the factors that influence the formation of the price of financial-banking services;
- Presentation of service pricing targets.

At the level of any organization, at different times in the life of the banking product (service), other specific objectives can be set, which the management team has to carefully consider in all the price objectives, all the more so since it is known some of the objectives outlined above are sometimes incompatible with different effects on performance indicators.

At the same time, the relevant pricing procedures for banking services are described, three representative price setting situations, among many others facing multi-product financial service providers, and argued that the factors to be analyzed are mostly similar, although the ways of finding the optimum solution may be different, namely: setting the price for a basic service, setting the price for a complementary service and setting the price on the spot (negotiation).

It follows from the above that it is possible to customize the pricing strategy, differentiate it even in the case of organizations with the same activity profile. Broadly speaking, the criteria that differentiate the price strategy refer to three aspects, namely the level, diversity and price mobility. The combination of variants of each such criterion results in several types of pricing strategies, each of which is also presented in several concrete variants, the approach of which concludes this paper.

2. The nature, role and importance of the price in financial-banking marketing

Given the fact that in the field of services, in general, of financial-banking, in particular, the increasingly strong competition, the setting of fair prices is an important element for the marketing strategy. In the financial-banking field the price concept , viewed in its classic sense, is much less common than non-financial sectors. In this field, a number of specific forms of price have been delineated, and concepts such as interest, first, commission, exchange rate, banking, title, discount rate became known and used. Here is just one of the causes that led to a series of confusion in financial-banking marketing. Although the price of a product / banking service is a relevant element of the mix, being an important source of income for the institution, there are few cases where such importance is diminished, since, for example, a low price is sometimes perceived by the buyer as a negative signal, even as a disadvantage. Used as a marketing policy tool "the price goes into special relations both with the product and the distribution, and with the promotion, on the basis of which it defines a specific position in relation to each one"[1]. With the product and distribution, the price occurs in multiple and complex relationships, because it contains both their content and their general and specific components, including the creation and delivery process.

The price offer as an expression of the product on the market is one of the conditions for adopting the pricing policy because the latter can be differentiated according to the way the product is offered, namely: as a global product or as separate individual products. Because each variant has advantages and disadvantages, the choice of one or the other is based on their implications for the bank's activity. The situation is particularly present in the insurance services, the differentiation of deposit products, credit (in the banking field).

The global offer of a banking product or service involves the use of a single price, such method allowing a better positioning of the product and providing a certain average profit margin. The disadvantages of the global offer method are the practical impossibility of knowing the profit margin and, implicitly, the profitability of each partial product, but also the perceived free of charge of some of the components and, last but not least, the inequality perceived in the case of not consuming some of the components, they were paid.

Consumer price perception is different from the role that the provider attributes for at least three reasons: the customer's knowledge of the price, the role of non-monetary costs and the price as an indicator of service quality. Practice has shown that in the banking financial sector, a complex that raises many problems for those involved in this area. This is because "the system of links between price and its factors is more complex and often contradictory to each other"[2].

3. Methods of setting the price of financial-banking services

❖ *Pricing for a basic service*

In the case of centrally priced prices, the "price" designed for current personal accounts is a particularly complex issue. For this reason, it can be argued that a current account can be viewed as a service with a low profit margin or even a generator of losses, provided that the margin increase is quantified and controlled in both cases. Thus, the developer of the strategy marketing is "divided" between the desire to have a simple price structure that is

[1] Olteanu Valerica, *Marketing financiar-bancar*, Editura Ecomar, Bucuresti, 2007, p. 119
[2] Olteanu Valerica, op. cit., p. 171

easy to manage and highlight by advertising and sales promotion companies, and the refusal to subsidize active users to passive ones.

❖ *Pricing of a complementary service*

The main issue at the time of introducing a new or substantially redefined complementary service is the rarity or inexistence of relevant historical data on its costs. Therefore, the developer of the price strategy can solve the problem by Orthodox marketing methods, first establishing the optimal sales price and then estimating the "bearable" production and marketing costs.

❖ *Placement of the price (negotiation)*

Any attempt to approach the "scientific" approach to price policy is losing importance in cases that are fairly common in financial services marketing where a manager or an officer in charge of developing a business must negotiate a fee or commission more or less a little while.

4. Factors that influence the formation of the price of financial-banking services

In the financial-banking sector, in general, and in the banking sector, in particular, the price of products / services is influenced by a wide range of factors, the banking product being extremely complex, never standing alone. In such a context we notes that these many factors influence, more or less, the price charged by a bank for the product (service) delivered. These are both internal factors, endogenous to the bank, under its control, as well as exogenous factors of the bank, external factors, which exert a certain influence outside the institution. On the latter, the bank has little control, sometimes it does not have such control, but it is bound to know the impact it may have on the price.

- ❖ ***The internal factors, endogenous*** to the bank, refer mainly to its objectives, to the influence of the other components of the marketing mix, to the financial factors (here we are considering the possible costs and risks), etc.
  - ➢ *the objectives of the institution* when determining the price of a particular banking product or service, it is absolutely necessary to first take into account the general strategic objectives of the institution.
  - ➢ *the other components of the marketing mix (product, promotion and distribution)* are closely related to the pricing policy and service delivery process, any change to one of these having visible consequences on all other.
  - ➢ *the financial factors,* we will mention here only two: cost structure and possible risks.
- ❖ ***The external factors of the bank, exogenous*** to it, exert, as mentioned before, an influence outside of it. We consider the institution's external environment, mainly competition, customer behavior, consumers and intermediaries, but also the bank's shareholders and, last but not least, the legal and institutional framework in the field.

5. Method to Fix the Price for “Your Home” Credit

"Your Home" is a real estate credit granted by Raiffeisen Bank on the basis of a mortgage-backed security I established on the real estate purchased or on immovable property owned by the applicant or third parties. This type of credit can be contracted in both Lei and Euro, for a period of between 3 years and 30 years, and its value ranges between € 5,000 and € 200,000. E.g:

- ❖ Under the terms of "Your Home" loan in Lei (standard offer), the annual effective interest will be calculated using the following formula:

$$S = \sum_{k=1}^{n} \frac{A_k}{(1+X)^{t_k}},$$

where:
S = 10000 €
n = 10 years = 120 months
A_k= 125,87 €

The calculation formula for the variable interest rate is ROBOR 3 Months (5,35%) +Margin (3,5%).

The interest rate = 8,85% (according to Raiffeisen sources, available on the official website)

Granting this type of credit involves the receipt of an analysis fee of € 400 / € 1600 and a guarantee fee of € 111.6.

This will result in the equation:

$$10000 = \frac{125{,}87}{(1+X)^{\frac{1}{12}}} + \frac{125{,}87}{(1+X)^{\frac{2}{12}}} + \frac{125{,}87}{(1+X)^{\frac{3}{12}}} + \frac{125{,}87}{(1+X)^{\frac{4}{12}}} + \frac{125{,}87}{(1+X)^{\frac{5}{12}}} + \frac{125{,}87}{(1+X)^{\frac{6}{12}}} + \frac{125{,}87}{(1+X)^{\frac{7}{12}}} +$$

$$+ \frac{125{,}87}{(1+X)^{\frac{8}{12}}} + \frac{125{,}87}{(1+X)^{\frac{9}{12}}} + \frac{125{,}87}{(1+X)^{\frac{10}{12}}} + \frac{125{,}87}{(1+X)^{\frac{11}{12}}} + \frac{125{,}87}{(1+X)^{\frac{12}{12}}} + \frac{125{,}87}{(1+X)^{\frac{13}{12}}} + \frac{125{,}87}{(1+X)^{\frac{14}{12}}} +$$

$$+ \frac{125{,}87}{(1+X)^{\frac{15}{12}}} + \frac{125{,}87}{(1+X)^{\frac{16}{12}}} + \frac{125{,}87}{(1+X)^{\frac{17}{12}}} + \frac{125{,}87}{(1+X)^{\frac{18}{12}}} + \frac{125{,}87}{(1+X)^{\frac{19}{12}}} + \frac{125{,}87}{(1+X)^{\frac{20}{12}}} + \frac{125{,}87}{(1+X)^{\frac{21}{12}}} +$$

$$+ \frac{125{,}87}{(1+X)^{\frac{22}{12}}} + \frac{125{,}87}{(1+X)^{\frac{23}{12}}} + \frac{125{,}87}{(1+X)^{\frac{24}{12}}} + \frac{125{,}87}{(1+X)^{\frac{25}{12}}} + \frac{125{,}87}{(1+X)^{\frac{26}{12}}} + \frac{125{,}87}{(1+X)^{\frac{27}{12}}}$$

$$+ \frac{125{,}87}{(1+X)^{\frac{28}{12}}} +$$

$$+ \frac{125{,}87}{(1+X)^{\frac{29}{12}}} + \frac{125{,}87}{(1+X)^{\frac{30}{12}}} + \frac{125{,}87}{(1+X)^{\frac{31}{12}}} + \frac{125{,}87}{(1+X)^{\frac{32}{12}}} + \frac{125{,}87}{(1+X)^{\frac{33}{12}}} + \frac{125{,}87}{(1+X)^{\frac{34}{12}}} + \frac{125{,}87}{(1+X)^{\frac{35}{12}}} +$$

$$+ \frac{125{,}87}{(1+X)^{\frac{36}{12}}} + \dots + \frac{125{,}87}{(1+X)^{\frac{116}{12}}} + \frac{125{,}87}{(1+X)^{\frac{117}{12}}} + \frac{125{,}87}{(1+X)^{\frac{118}{12}}} + \frac{125{,}87}{(1+X)^{\frac{119}{12}}} + \frac{125{,}87}{(1+X)^{\frac{120}{12}}}$$

However, according to the reimbursement schedule, the equation becomes:

10000 = 124,94+ 124,03+ 123,12+ 122,22+ 121,33+ 120,44+ 119,56+ 118,68+ 117,81+ 116,95+ 116,09+ 115,24+114,40+ 113,56+ 112,73+ 111,90+ 111,09+ 110,27+ 109,46+108,66+ 107,87+ 107,08+ 106,29+ 105,52+ 104,74+ 103,98+ 103,22+ 102,46+101,71+100,97+ +100,23+ 99,49+ 98,76+ 98,04+ 97,32+ 96,61+ 95,90+ 95,20+ . . . + 53,67+ 53,28+ 52,89+ 52,50+$\boxed{52{,}12}$

So,

$$\frac{125{,}87}{(1+X)^{\frac{120}{12}}} = 52{,}12 \rightarrow (1+X)^{\frac{120}{12}} = \frac{125{,}87}{52{,}12} \rightarrow (1+X)^{10} = 2{,}4150$$

$$\rightarrow 1+X = \sqrt[10]{2{,}4150} \rightarrow 1+X = 1{,}0922 \rightarrow X = 9{,}22\%$$

However, taking into account the analysis fee of 400 € / 1600 Lei and the guarantee fee of 111.6 € (0.19%), the annual effective interest rate will be 9.41%.

- ❖ Under the terms of "Your Home" loan in Lei (the offer for home customers), the annual effective interest will be calculated using the following formula:

$$S = \sum_{k=1}^{n} \frac{A_k}{(1+X)^{t_k}},$$

where:
S = 10000 €
n = 10 years = 120 months
A_k= 124,52€

The calculation formula for the variable interest rate is ROBOR 3 Months (5,35%) +Margin (3,25%).

The interest rate = 8,60% (according to Raiffeisen sources, available on the official website)

Granting this type of credit involves the receipt of an analysis fee of € 400 / € 1600 and a guarantee fee of € 111.6.

This will result in the equation:

$$10000 = \frac{124,52}{(1+X)^{\frac{1}{12}}} + \frac{124,52}{(1+X)^{\frac{2}{12}}} + \frac{124,52}{(1+X)^{\frac{3}{12}}} + \frac{124,52}{(1+X)^{\frac{4}{12}}} + \frac{124,52}{(1+X)^{\frac{5}{12}}} + \frac{124,52}{(1+X)^{\frac{6}{12}}} + \frac{124,52}{(1+X)^{\frac{7}{12}}} +$$

$$+ \frac{124,52}{(1+X)^{\frac{8}{12}}} + \frac{124,52}{(1+X)^{\frac{9}{12}}} + \frac{124,52}{(1+X)^{\frac{10}{12}}} + \frac{124,52}{(1+X)^{\frac{11}{12}}} + \frac{124,52}{(1+X)^{\frac{12}{12}}} + \frac{124,52}{(1+X)^{\frac{13}{12}}} + \frac{124,52}{(1+X)^{\frac{14}{12}}} +$$

$$+ \frac{124,52}{(1+X)^{\frac{15}{12}}} + \frac{124,52}{(1+X)^{\frac{16}{12}}} + \frac{124,52}{(1+X)^{\frac{17}{12}}} + \frac{124,52}{(1+X)^{\frac{18}{12}}} + \frac{124,52}{(1+X)^{\frac{19}{12}}} + \frac{124,52}{(1+X)^{\frac{20}{12}}} + \frac{124,52}{(1+X)^{\frac{21}{12}}} +$$

$$+ \frac{124,52}{(1+X)^{\frac{22}{12}}} + \frac{124,52}{(1+X)^{\frac{23}{12}}} + \frac{124,52}{(1+X)^{\frac{24}{12}}} + \frac{124,52}{(1+X)^{\frac{25}{12}}} + \frac{124,52}{(1+X)^{\frac{26}{12}}} + \frac{124,52}{(1+X)^{\frac{27}{12}}} + \frac{124,52}{(1+X)^{\frac{28}{12}}} +$$

$$+ \frac{124,52}{(1+X)^{\frac{29}{12}}} + \frac{124,52}{(1+X)^{\frac{30}{12}}} + \frac{124,52}{(1+X)^{\frac{31}{12}}} + \frac{124,52}{(1+X)^{\frac{32}{12}}} + \frac{124,52}{(1+X)^{\frac{33}{12}}} + \frac{124,52}{(1+X)^{\frac{34}{12}}} + \frac{124,52}{(1+X)^{\frac{35}{12}}} +$$

$$+ \frac{124,52}{(1+X)^{\frac{36}{12}}} + \ldots + \frac{124,52}{(1+X)^{\frac{116}{12}}} + \frac{124,52}{(1+X)^{\frac{117}{12}}} + \frac{124,52}{(1+X)^{\frac{118}{12}}} + \frac{124,52}{(1+X)^{\frac{119}{12}}} + \frac{124,52}{(1+X)^{\frac{120}{12}}}$$

However, according to the reimbursement schedule, the equation becomes:

10000 = 123,64+ 122,76+ 121,88+ 121,01+ 120,15+ 119,30+ 118,45+ 117,61+ 116,77+ 115,94+ 115,11+ 114,29+113,48+ 112,67+ 111,87+ 111,08+ 110,29+ 109,50+ 108,72+107,95+107,18+ 106,42+ 105,66+ 104,91+ 104,16+ 103,42+ 102,68+ 101,95+101,23+100,51+ +99,79+ 99,08+ 98,38+ 97,68+ 96,98+ 96,29+ 95,61+ 94,93+ . . . +54,39+ 54,00+ 53,61+ 53,23+ $\boxed{52,85}$

So,

$$\frac{124{,}52}{(1+X)^{\frac{120}{12}}} = 52{,}85 \rightarrow (1+X)^{\frac{120}{12}} = \frac{124{,}52}{52{,}85} \rightarrow (1+X)^{10} = 2{,}3561$$

$$\rightarrow 1+X = \sqrt[10]{2{,}3561} \rightarrow 1+X = 1{,}0895 \rightarrow X = 8{,}95\%$$

However, taking into account the analysis fee of 400 € / 1600 Lei and the guarantee fee of 111.6 € (0.19%), the annual effective interest rate will be 9.14%.

- Under the terms of "Your Home" loan in Euro (standard offer), the annual effective interest will be calculated using the following formula:

$$S = \sum_{k=1}^{n} \frac{A_k}{(1+X)^{t_k}},$$

where:
S = 8000 €
n = 7 years = 84 months
A_k = 118,09 €

The calculation formula for the variable interest rate is EURIBOR 6 Months (0,318%) +Margin (6%).

The interest rate = 6,318% (according to Raiffeisen sources, available on the official website)

Granting this type of credit involves the receipt of an analysis fee of € 400 / € 1600 and a guarantee fee of € 111.6.

This will result in the equation:

$$8000 = \frac{118{,}09}{(1+X)^{\frac{1}{12}}} + \frac{118{,}09}{(1+X)^{\frac{2}{12}}} + \frac{118{,}09}{(1+X)^{\frac{3}{12}}} + \frac{118{,}09}{(1+X)^{\frac{4}{12}}} + \frac{118{,}09}{(1+X)^{\frac{5}{12}}} + \frac{118{,}09}{(1+X)^{\frac{6}{12}}} + \frac{118{,}09}{(1+X)^{\frac{7}{12}}} +$$

$$+ \frac{118{,}09}{(1+X)^{\frac{8}{12}}} + \frac{118{,}09}{(1+X)^{\frac{9}{12}}} + \frac{118{,}09}{(1+X)^{\frac{10}{12}}} + \frac{118{,}09}{(1+X)^{\frac{11}{12}}} + \frac{118{,}09}{(1+X)^{\frac{12}{12}}} + \frac{118{,}09}{(1+X)^{\frac{13}{12}}} + \frac{118{,}09}{(1+X)^{\frac{14}{12}}} +$$

$$+ \frac{118{,}09}{(1+X)^{\frac{15}{12}}} + \frac{118{,}09}{(1+X)^{\frac{16}{12}}} + \frac{118{,}09}{(1+X)^{\frac{17}{12}}} + \frac{118{,}09}{(1+X)^{\frac{18}{12}}} + \frac{118{,}09}{(1+X)^{\frac{19}{12}}} + \frac{118{,}09}{(1+X)^{\frac{20}{12}}} + \frac{118{,}09}{(1+X)^{\frac{21}{12}}} +$$

$$+ \frac{118{,}09}{(1+X)^{\frac{22}{12}}} + \frac{118{,}09}{(1+X)^{\frac{23}{12}}} + \frac{118{,}09}{(1+X)^{\frac{24}{12}}} + \frac{118{,}09}{(1+X)^{\frac{25}{12}}} + \frac{118{,}09}{(1+X)^{\frac{26}{12}}} + \frac{118{,}09}{(1+X)^{\frac{27}{12}}} + \frac{118{,}09}{(1+X)^{\frac{28}{12}}} +$$

$$+ \frac{118{,}09}{(1+X)^{\frac{29}{12}}} + \frac{118{,}09}{(1+X)^{\frac{30}{12}}} + \frac{118{,}09}{(1+X)^{\frac{31}{12}}} + \frac{118{,}09}{(1+X)^{\frac{32}{12}}} + \frac{118{,}09}{(1+X)^{\frac{33}{12}}} + \frac{118{,}09}{(1+X)^{\frac{34}{12}}} + \frac{118{,}09}{(1+X)^{\frac{35}{12}}} +$$

$$+ \frac{118{,}09}{(1+X)^{\frac{36}{12}}} + \dots + \frac{118{,}09}{(1+X)^{\frac{80}{12}}} + \frac{118{,}09}{(1+X)^{\frac{81}{12}}} + \frac{118{,}09}{(1+X)^{\frac{82}{12}}} + \frac{118{,}09}{(1+X)^{\frac{83}{12}}} + \frac{118{,}09}{(1+X)^{\frac{84}{12}}}$$

According to the repayment schedule, the equation becomes:

8000 = 117,47+ 116,86+ 116,25+ 115,64+ 115,03+ 114,43+ 113,83+ 113,23+ 112,64+ 112,05+ 111,46+ 110,88+110,30+ 109,72+ 109,15+ 108,58+ 108,01+ 107,44+ 106,88+106,32+105,76+ 105,21+ 104,66+ 104,11+ 103,56+ 103,02+ 102,48+ 101,94+101,41+100,88+ +100,35+ 99,83+ 99,30+ 98,78+ 98,27+ 97,75+ 97,24+ 96,73+ . . . +77,58+ 77,18+ 76,77+ 76,37+ $\boxed{75{,}97}$

Astfel, $\frac{118,09}{(1+X)^{\frac{84}{12}}} = 75,97 \rightarrow (1+X)^{\frac{84}{12}} = \frac{118,09}{75,97} \rightarrow (1+X)^{7} = 1,5544$

$\rightarrow 1+X = \sqrt[7]{1,5544} \rightarrow 1+X = 1,0651 \rightarrow X = 6,51\%$

However, taking into account the analysis fee of 400 € / 1600 Lei and the guarantee fee of 111.6 € (0.168%), the annual effective interest rate will be 6.678%.

- Under the terms of "Your Home" loan in Euro (the offer for home customers), the annual effective interest will be calculated using the following formula:

$$S = \sum_{k=1}^{n} \frac{A_k}{(1+X)^{t_k}},$$

where:
S = 8000 €
n = 7 years = 84 months
A_k= 115,79 €

The calculation formula for the variable interest rate is EURIBOR 6 Months (0,318%) + Margin (5,4%).

The interest rate = 5,718% (according to Raiffeisen sources, available on the official website)

Granting this type of credit involves the receipt of an analysis fee of € 400 / € 1600 and a guarantee fee of € 111.6.

This will result in the equation:

$$8000 = \frac{115,79}{(1+X)^{\frac{1}{12}}} + \frac{115,79}{(1+X)^{\frac{2}{12}}} + \frac{115,79}{(1+X)^{\frac{3}{12}}} + \frac{115,79}{(1+X)^{\frac{4}{12}}} + \frac{115,79}{(1+X)^{\frac{5}{12}}} + \frac{115,79}{(1+X)^{\frac{6}{12}}} + \frac{115,79}{(1+X)^{\frac{7}{12}}} +$$

$$+ \frac{115,79}{(1+X)^{\frac{8}{12}}} + \frac{115,79}{(1+X)^{\frac{9}{12}}} + \frac{115,79}{(1+X)^{\frac{10}{12}}} + \frac{115,79}{(1+X)^{\frac{11}{12}}} + \frac{115,79}{(1+X)^{\frac{12}{12}}} + \frac{115,79}{(1+X)^{\frac{13}{12}}}$$

$$+ \frac{115,79}{(1+X)^{\frac{14}{12}}} +$$

$$+ \frac{115,79}{(1+X)^{\frac{15}{12}}} + \frac{115,79}{(1+X)^{\frac{16}{12}}} + \frac{115,79}{(1+X)^{\frac{17}{12}}} + \frac{115,79}{(1+X)^{\frac{18}{12}}} + \frac{115,79}{(1+X)^{\frac{19}{12}}} + \frac{115,79}{(1+X)^{\frac{20}{12}}} + \frac{115,79}{(1+X)^{\frac{21}{12}}}$$

$$+$$

$$+ \frac{115,79}{(1+X)^{\frac{22}{12}}} + \frac{115,79}{(1+X)^{\frac{23}{12}}} + \frac{115,79}{(1+X)^{\frac{24}{12}}} + \frac{115,79}{(1+X)^{\frac{25}{12}}} + \frac{115,79}{(1+X)^{\frac{26}{12}}} + \frac{115,79}{(1+X)^{\frac{27}{12}}} + \frac{115,79}{(1+X)^{\frac{28}{12}}}$$

$$+$$

$$+ \frac{115,79}{(1+X)^{\frac{29}{12}}} + \frac{115,79}{(1+X)^{\frac{30}{12}}} + \frac{115,79}{(1+X)^{\frac{31}{12}}} + \frac{115,79}{(1+X)^{\frac{32}{12}}} + \frac{115,79}{(1+X)^{\frac{33}{12}}} + \frac{115,79}{(1+X)^{\frac{34}{12}}} + \frac{115,79}{(1+X)^{\frac{35}{12}}} +$$

$$+ \frac{115,79}{(1+X)^{\frac{36}{12}}} + \ldots + \frac{115,79}{(1+X)^{\frac{80}{12}}} + \frac{115,79}{(1+X)^{\frac{81}{12}}} + \frac{115,79}{(1+X)^{\frac{82}{12}}} + \frac{115,79}{(1+X)^{\frac{83}{12}}} + \frac{115,79}{(1+X)^{\frac{84}{12}}}$$

According to the repayment schedule, the equation becomes:

8000 = 115,24+ 114,69+ 114,15+ 113,61+ 113,07+ 112,53+ 112,00+ 111,47+ 110,94+ 110,41+ 109,89+ 109,37+108,85+ 108,33+ 107,82+ 107,31+ 106,80+ 106,29+

105,79+105,29+104,79+ 104,29+ 103,80+ 103,31+ 102,82+ 102,33+ 101,84+ 101,36+100,88+100,40+ +99,92+ 99,45+ 98,98+ 98,51+ 98,04+ 97,58+ 97,11+ 96,65+ . . . + 79,16+ 78,79+ 78,41+ 78,04+ 77,67

So,

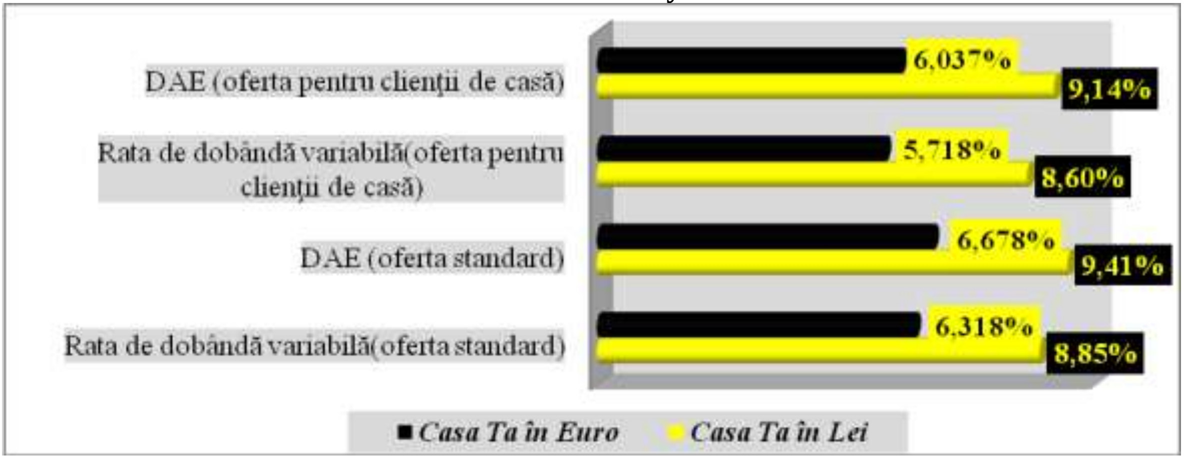
$$\frac{115,79}{(1+X)^{\frac{84}{12}}} = 77,67 \rightarrow (1+X)^{\frac{84}{12}} = \frac{115,79}{77,67} \rightarrow (1+X)^{7} = 1,4907$$

$$\rightarrow 1+X = \sqrt[7]{1,4907} \rightarrow 1+X = 1,05869 \rightarrow X = 5,869\%$$

However, taking into account the analytical fee of € 400 / € 1600 and the guarantee fee of € 111.6 (0.168%), the annual effective interest rate will be 6.037%.

In conclusion, the annual effective interest calculated for previous examples of granting a "Your Home" loan can reach one of the values shown in the following chart:

Chart 1. Annual effective interest for your "Your Home" credit



Source: Data processing available on http://www.raiffeisen.ro/persoane-fizice/credite/casa-ta, accesed on 12.02.2019

Analyzing the previous chart, it can be noticed that the annual effective interest rate is positively corrected with the variable interest rate, because when the interest rate changes in the direction of the increase and the actual annual interest rate changes in the same sense. Taking this into account, in Lei, the variable interest rate is calculated by adding up the ROBOR 3 months (currently 5.35%) with a margin set by Raiffeisen Bank according to the quality of the clients:

- *Standard offer* (for any client) - the margin is set at 3.50%
- *Domestic customers offer* (for customers who have or will open salary or pension accounts with Raiffeisen Bank) - the margin is set at 3.25%.

For ROBOR 3 months, the interest rate is updated four times a year, namely: the last day of March, June, September and December.

In the case of a "Your Home" loan in Euro, the variable interest rate takes EURIBOR 6 months (currently 0.318%) and the margin set by Raiffeisen Bank according to the quality of the clients:

- *Standard offer* (for any client) - the margin is set at 6,00%
- *Domestic customers offer* (for customers who have or will open salary or pension accounts with Raiffeisen Bank) - the margin is set at 5,40%.

For the 6-month EURIBOR, the interest rate is updated twice a year, namely: the last day of June and December.

Therefore, clients who have an account with Raiffeisen Bank and apply for a home loan will benefit from a reduction in the annualized interest rate resulting from the diminution of the variable interest rate for both Lei and Euro loans. According to the graph presented previously, the difference between the effective annual interest rate for a standard offer and the offer for household customers is 0.27% for a "Your Home" loan in Lei and 0.641% for a "Your Home" credit in Euro.

Also, the annual effective interest rate is also influenced by the fees and commissions charged by Raiffeisen Bank. So, in the case of "Your Home" loan, Raiffeisen Bank has set the following fees and commissions:

- ✓ Analysis fee of 400 Euro / 1600 Lei (for credits in Euro / Lei);
- ✓ Standard guarantee valuation fee of 111.6 euro (or equivalent in Lei);
- ✓ Unique post-award fee of 90 Euro / application (or equivalent in Lei).

In conclusion, for the purpose of contracting a floating rate loan, it is important to know that the annual effective interest rate expresses the total cost of the loan at that date, taking into account the interest rate charged by the bank. Thus, a change in the interest rate leads to an increase or decrease in the annual effective interest rate. However, taking into account that all credit institutions use the same indices (ROBOR, EURIBOR), this does not affect the analysis of prices for loans contracted at variable interest rates. Thus, it will be possible to calculate the annual effective interest rate for choosing the cheapest loan, regardless of the level at which the benchmark for that type of credit.

With regard to fixed interest loans, the annual effective interest rate calculation provides accurate results as the interest rate level remains constant from the day of the contract signing to the last installment payment date. It is more difficult to compare a fixed interest credit with one with variable interest, since in this case, the choice should also take into account estimates of the evolution of interbank interest during that period.

6. Conclusions

Today, the emphasis is on the development of marketing in the financial and banking field, as it is more profitable for banks to keep current clients to establish long-term relationships and to find strategies to attract new customers. The phenomenon of globalization has allowed the expansion of the branch network of international banks, which has led to the impossibility of a competitive differentiation, given that a banking institution has thousands of competitors at local, regional, national and global level. leave the interest of another bank and give up the relationship they have with a particular bank. However, in order to increase the performance of a bank, it must be able to make the best use of resources and information through an appropriate management. Thus, the way to obtain a competitive advantage in the case of retail banks results in customer loyalty by optimizing product costs, while for corporations, it is important to have the flexibility to provide tailor-made services tailored to the needs of each individual customer. In spite of the difficult economic climate, the lending of all customer segments by Raiffeisen Bank was an advantage of the bank, an advantage that facilitated its maintenance of the market share on loans granted to individuals.

Taking into account that the current trend is heading for savings, banks should offer customers the most affordable products to enable the credit activity to be relaunched since it is the bank's main source of profitability.

In conclusion, the most important is for banks to realize that their primary target is represented by clients, because the conduct of a bank's business depends on their existence, as they are a part of the business. Moreover, to make them available the entire supply of products and services, there needs to be a strong relationship between the bank and the clients, which leads to their preservation, respectively their loyalty, because only in these conditions will the level of banking performance increase. Also, the bank assists the clients through all what it does, precisely to establish an effective collaboration with them, based on mutual trust.

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BUDGETARY PRINCIPLES AND RULES ACCORDING TO THE LAW ON PUBLIC FINANCES

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Abstract: *The principle, as a general concept, is a basic rule of maximal generality, on which is based a scientific theory, a political system, a rational construction, any principle being the beginning of an action. Principles are found in all socio-professional and, implicitly, financial law. The law on public finances does not define the notion of principle, summing up only to enumerate them, without developing them in its content. Thus, budgetary principles can be defined as indicative norms underlying the achievement of the entire budgetary process, with the aim of establishing clear rules for the preparation and implementation of the budget.*

Key words: *budget, principle, public finances, budget execution.*
JEL Clasification: *K00, K34.*

1. Introduction

The principle, as a general concept, is a basic rule of maximal generality, on which is based a scientific theory, a political system, a rational construction, any principle being the beginning of an action.

Etymologically, the principle word comes from the Latin principle, which had the meaning of a central axis, a fundamental element, but also a source of generalization of experimental facts. If generalization is so covert that it concerns an entire system of rules, we are in the presence of a general principle.

2. Definitions and clasifications

"The principle is born in an intelectual value selection process, starting from common elements of individual acts, going to their essence. Ultimately, the logical construction of principles is the last expression of refined abstraction, but in a pragmatic vision, opposite to the Kantian one, the principle is meant to be a source, a cause of action, an operational working instrument and a model to follow " (Grădinaru, Mihalcea and Stancea, 2017).

"Since the time of ancient thinkers, every principle was considered to be directly related to concrete existential reality. In its metaphysical sense, the principle had the first sense of origin and development of things, and according to its epistemological sense, the principle was considered to be a fundamental supposition of knowledge, thought, and ultimately action" (Colinson, 1995).

In order to emphasize their particular meaning in relation to the other rules, the principles have received different forms of expression; thus, for Pythagoras, the principles were represented by numbers, in Plato's case, the principles personalized their ideas, and in Kant's case the principles stood at the basis of its axioms and postulates (Grădinaru, Mihalcea and Stancea, 2017).

A general principle is concretized over time, as a result of repeated social experiences, reflects the objective needs of evolution of the respective society, normalization of the rules of social cohabitation. In the process of normative elaboration, the principle is the spirit of regulation.

So principles are found in all socio-professional fields and, implicitly, in the field of financial law. The law on public finances does not define the notion of principle, summing up only to enumerate them, without developing them in its content.

Thus, budgetary principles can be defined as indicative norms underlying the achievement of the entire budgetary process, with the aim of establishing clear rules for the preparation and implementation of the budget.

Article 7 of Law no. 273/2006 of local public finances regulates the principle of universality, establishing that it implies that the revenues and expenditures are included in the budget in full, without omissions, in gross amounts, and the budgetary revenues can not be directly affected by a certain budgetary expenditure, except for the donations and sponsorships, which have established distinct destinations.

The principle of budgetary universality, as regulated by the Public Finance Act, ensures that there are some correlations that must exist between revenues and expenditures, the latter being in close connection and at the same time a tool for facilitating financial control, but without establishing a link between a particular expense and a certain income.

According to the principle of budgetary universality, public revenues and public expenditures, their total amounts, should be included in the state budget, ie it should not be conceived as a public income or expenditure to be done outside the budgetary framework. This is because receiving public revenues generates certain expenses, it is mandatory for the revenues to be recorded in the budget with their gross output and budget expenditures in total figure, not the difference between the two; the gross budget is the budget drawn up in accordance with the principle of budgetary universality.

And the revised Constitution of Romania in 2003 enshrines in Article 15, in the framework of the principle of universality, that "citizens enjoy the rights and freedoms enshrined in the Constitution and other laws and have their obligations".

At European level, the principle of budgetary universality finds transposition in the Final Act 2019/333 of the general budget of the European Union for the financial year 2019 stating that "The principle of universality implies that total revenue covers total payment appropriations, with the exception of certain revenues , determined in a limited way, allocated to finance certain expenses. Revenues and expenditures are fully booked in the budget without being adjusted to each other".

At the same time, budgetary universality also correlates with the principle of budgetary transparency that is so necessary in this area, a clear vision of those entitled to analyze and approve the budget, and the possibility of real control over it.

The principle of transparency and publicity foresees that the budgetary process is open and transparent, through:

a) publishing in the local press on the public institution's website or displaying the local budget project and its annual execution account at the respective local public administration authority;

b) the public debate of the draft local budget, on the occasion of its approval;

c) presentation of the annual budget execution account in public session[1].

As regards the principle of budgetary transparency, it is necessary to provide better information on budgetary implementation and accounting. In order to comply with the principles of transparency and sound financial management, public sector bodies or bodies carrying out public service tasks entrusted with budget implementation tasks must have transparent procurement procedures, effective internal controls, a system of presentation accounts different from the rest of their activities and an external audit.

Public transparency should be understood as an obligation that empowers each public authority or institution to present objectively, openly and timely information of public interest.

[1] Article 8 of Law no. 273 of 29 June 2006 on local public finances.

It follows that the principle of transparency is a principle by which public authorities and institutions have an obligation to operate in an open manner to the public where free and unhindered access to information of public interest is the rule and the limitation of access to information is exception, under the law (Televca, 2012).

A first condition for transparency in the budgeting process is publishing in the local press, on the public institution's website, or displaying the local budget project and its annual execution account at the respective local government authority.

Also, the public debate of the draft local budget is under the provisions of Art. 7 of the Law 52/2003 on the transparency of decision-making in public administration, as subsequently amended and supplemented, and it is an obligation of the public administration authorities, and the presentation of the annual budget execution account in public session is the next stage that ensures and fully guarantees applying the principle of transparency and publicity in the budgetary process.

The principle of unity in the budgetary process states that budget revenues and expenditures are part of a single document in order to ensure the efficient use and monitoring of local public funds. Retention and use of extrabudgetary income, as well as the constitution of local public funds outside local budgets, are prohibited unless the law provides otherwise[1].

Implementing the principle of budgetary unity leads to a clear budget and efficient use and permanent monitoring of public funds; a unitary budget ensures that the legislative authority has a precise horizon with regard to the structure and volume of expenditures proposed by the Government, and can thus take full knowledge of the decision to approve or reject some expenses considered inappropriate, thus providing a a framework conducive to rigorous control over the way budget revenues and expenditures are executed.

Article 10 of the Public Finance Act states in the monetary unit principle that all budget operations are expressed in national currency.

According to art. 11, the principle of annuality implies that budget revenues and expenditures are approved under the law for a period of one year corresponding to the budget year and all the operations of payments and payments made during a budgetary year to the budget account belong to the corresponding execution year of that budget.

The principle of budgetary annuality defines the budget's time dimension and is the first rule in the budgetary field. This principle refers both to the periodicity of budget preparation and approval, and to the budget exercise, that is, to the period of time that the budget must be executed. The ad hoc transposition of this principle takes into account that the Government has the obligation, within a determined period of time, to draft the draft state budget and the legislative authority must analyze it and then submit it to the debate and approval in the plenary of the committees. A realistic annual budget forecast is difficult to achieve in the existing political climate and especially in the context of economic, legislative and financial instability. In this respect, the Government has budgetary rectifications through the Ministry of Public Finance, but this instrument can not be used too much.

The principle of budgetary specialization takes into account that budget revenues and expenditures are registered and approved in the budget by sources of origin and respectively by categories of expenditures, grouped according to their economic nature and their destination.

[1] Article 9 of Law no. 273 of 29 June 2006 on local public finances.

For the practical application of this principle, the Ministry of Public Finance should elaborate and approve the so-called budget classification - a scheme that includes all budget revenues and expenditures.

According to the budget balance principle, budget expenditures are fully covered by the budget revenue.

This principle refers in particular to the fact that the public budget must be balanced, the revenue covering the expenditure in full. The ideal balance of budget is rarely encountered, and it is the situation where all spending on budget revenues is fully covered and a balance is maintained throughout the budget execution period. As a rule, the budget is deficient, with spending higher than revenue.

Budgeting rules:

- It is forbidden to make payments directly from the proceeds earned, unless the law provides otherwise.
- Budget expenditures have a precise and limited destination and are determined by the authorizations contained in special laws and annual budget laws.
- No expenditure may be entered in the budgets set out above nor can it be committed and made out of these budgets if there is no legal basis for that expenditure.
- No local public expenditure can be committed, authorized, and paid if it is not approved under the law and if it does not have budgetary provisions and sources of funding.
- After approving the local budgets, normative acts with implications on them can be approved, but only by specifying the sources for covering the decrease of the incomes or the increase of the budgetary expenditures related to the budget year for which the respective local budgets were approved[1].

Other principles under the Public Finance Act are:

- The principle of solidarity, according to which local budget policies can help the administrative-territorial units, as well as the individuals in a situation of extreme difficulty, by allocating amounts from the budgetary reserve fund constituted in the local budget. From the budget reserve fund established in the local budget, the local councils, the county councils or the General Council of the Municipality of Bucharest, as the case may be, may approve the granting of aids to the administrative-territorial units in extremely difficult situations at the public request of the mayors of these administrative or territorial units own initiative.

The principle of local financial autonomy stipulates that the administrative-territorial units have the right to sufficient financial resources, which the local public administration authorities can use in the exercise of their attributions, on the basis and within the limits stipulated by the law. The local public administration authorities have the competence to set the levels of local taxes and duties, according to the law. The allocation of financial resources for the balancing of local budgets should not affect the application of the budgetary policies of the local public administration authorities in their area of competence. Sums for special purpose use are used by local government authorities in accordance with legal provisions[2].

The principle of proportionality refers to the financial resources of the administrative-territorial units, which must be proportionate to the responsibilities of the local public administration authorities established by law, and the principle of consultation requires that local public administration authorities, through their associative structures, be

[1] Article 14 of Law no. 273 of 29 June 2006 on local public finances.
[2] Article 16 of Law no. 273 of 29 June 2006 on local public finances.

consulted on the process of allocating of the financial resources from the state budget to the local budgets.

3. Conclusions

Therefore, the acts underlying the consecration of the principles of law originate from the experience of human cohabitation, and in order to transpose in principle, successive evaluations of the conduct of individuals are required in relation to the requirements of everyday life.

The complexity of the law-making process is revealed if we consider the continuous and reciprocal transitions from the concrete normative plan into that of the ideal, the subtle and reciprocal ties between the needs of everyday life and the criteria of appreciation by which one realizes and expresses the position, the role of a particular group in the determined society (Djuvara, 1995).

Whilst any normative act may undergo changes, correlations or abrogations, the principles of law can not be changed in their letter and spirit and can not be derogated from. Moreover, any modification, correlation, repeal of any normative act must be done in compliance with the principles underlying that regulation.

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TELEWORKING - A RESULT OF THE EVOLUTION OF INFORMATION AND COMMUNICATIONS TECHNOLOGY

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Abstract: *The continuous and rapid evolution of information and communication technology has created the premises of the remote activity, thus replacing the classical way of working as an employee working in an office at the employer's headquarters. This paper aims to present a series of statistical data on the number of employees in the European Union who usually work from home using information and communication technology. Comparing the statistical data, Romania is at the end of the ranking, but this ranking is strongly influenced by the fact that this type of work has recently been regulated in our country. The quantitative analysis of the number of employees working at home is complemented by the advantages and disadvantages of this activity.*

Key words*: teleworking, teleworker, employer, employee.*
Clasificarea JEL: *J01, J80.*

1. Introduction

In today's information society, in a knowledge-based economy, the relationship between employer and employee needs to be much more flexible. Taking into account the modernization of the labor market at European level, the Government Program 2017-2020 no. 1/2017, approved by the Decision of the Parliament of Romania, in the section "Stimulating the creation of new jobs" referred to "The introduction of new types of employment contracts (eg teleworking)" (Consiliul Economic și Social, 2017).

Following this initiative, on April 2, 2018, Law no. 81/2018 has been published, regarding the regulation of the teleworking activity.

The law introduces the concepts of teleworking and tele-employee, as follows (Monitorul Oficial, 2018):

- *teleworking* is the form of work organization whereby the employee, on a regular and voluntary basis, fulfills his specific duties for the position, occupation or job that he holds, in a place other than the work place organized by the employer, at least one day a month, using information and communication technology;
- *teleworker* is any employee who carries out his activity under the conditions provided above.

Until the enactment of this law, the Labor Code, in articles 108, 109 and 110 regulated only the work at home which requires the employee to perform his work at his domicile, a provision that remains in force. The new provisions regulate both the situation in which the work is carried out at home and the situations in which the work is carried out in various other places, different from home. However, the names of the two concepts are used interchangeably.

2. Aspects regarding teleworking

An evolution, at European level, between 2008-2017 of the number of employees who usually work from home is presented in (Figure 1). Taking into account the fact that in Romania the standard retirement age is currently 65 years for men and 63 years for women, the maximum interval chosen for carrying out the present analysis is [15,64] years.

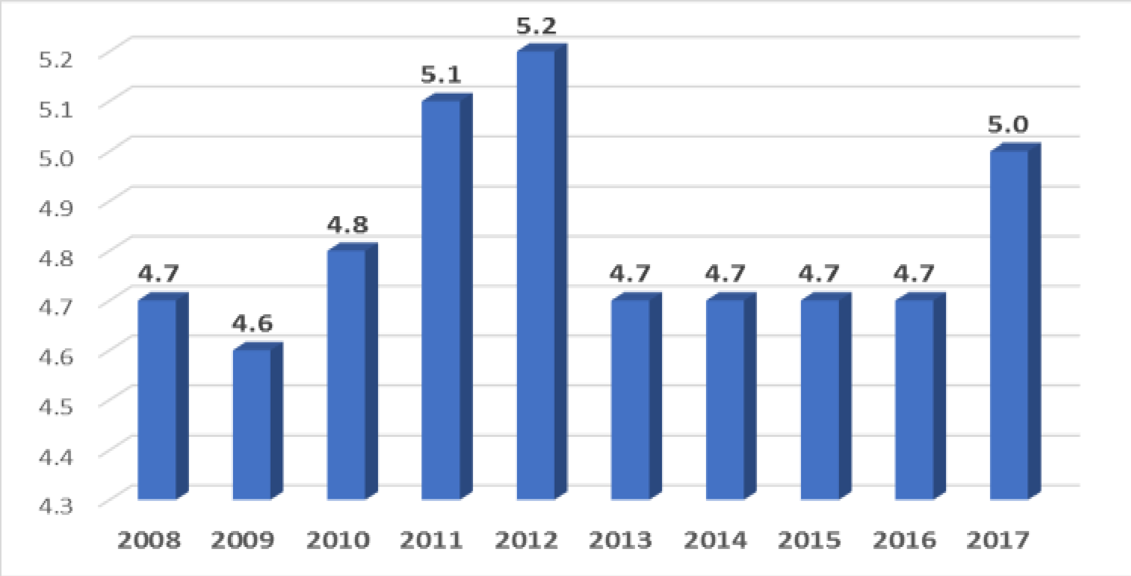

Figure 1. Evolution of the number of employees between the ages of 15 and 64 who usually work from home, at EU 28 level (2008-2017, % of the total number of jobs)
Source: Eurostat, 2019, *Employed persons working from home as a percentage of the total employment, by sex, age and professional status (%)*. [online] Available at: <https://ec.europa.eu/eurostat/data/database> [Accesed 17 March 2019].

From Figure 1, it can be noticed that between 2008 and 2012, there is an upward trend in the number of employees who usually work from home, except for the variation of -0.1% in 2009. The highest percentage is reached in 2012 (5.2%), followed by a 0.5% decrease in 2013.

The year 2017 brought an increase of 0.3% in the number of employees who usually work from home, compared to the period 2013-2016.

At the level of our country, the evolution of the number of employees between the ages of 15 and 64 who usually work from home, in the period 2008-2017, is presented in Figure 2.

The values belong to the range [0.2%, 0.5%], with a variation of ± 0.1% from year to year.

The difference from the European average, for the analyzed period, is between 4.2% and 4.8%, in 2017 only 0.4% of the total number of jobs in Romania were occupied by employees who usually work from home, compared to the EU28 average of 5.0%.

This can be partly explained by the fact that the law regulating teleworking activity in Romania has been implemented since April 5, 2018.

At European level, the step towards the modernization of the labor market has been made since 2002 when the European Framework Agreement for teleworking was concluded. The social partners that signed this Framework Agreement are: the European Trade Union Confederation (ETUC), the Union of Industrial and Employers Confederations of Europe (UNICE) (since 2007 the organization has changed its name into BUSINESSEUROPE, the European Business Confederation), the European Union of Craft and Small and Medium Enterprises (UEAPME) and the European Center for Public Participation Enterprises and Enterprises of General Economic Interest (CEEP). The agreement aims at establishing a general framework at European level on working conditions of teleworkers and reconciling the common flexibility and security needs of employers and workers (Summaries of EU Legislation, 2019).

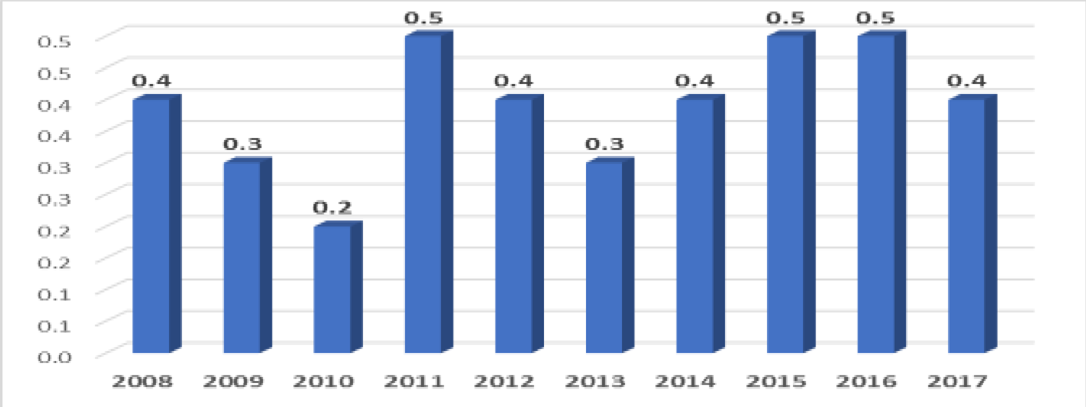

Figure 2. Evolution of the number of employees between the ages of 15 and 64 who usually work from home, at the level of Romania, (2008-2017,% of the total number of jobs)

Source: Eurostat, 2019, *Employed persons working from home as a percentage of the total employment, by sex, age and professional status (%)*. [online] Available at: <https://ec.europa.eu/eurostat/data/database> [Accesed 17 March 2019].

According to data provided by Eurostat, in 2017 Romania was on the penultimate place, with a percentage of 0.4% employees between the ages of 15 and 64 who usually work from home, at a difference of 4.6% from the European average, Bulgaria being on the last place with a percentage of 0.3%. At the opposite pole is the Netherlands where 13.7% of the employees usually work from home (Figure 3).

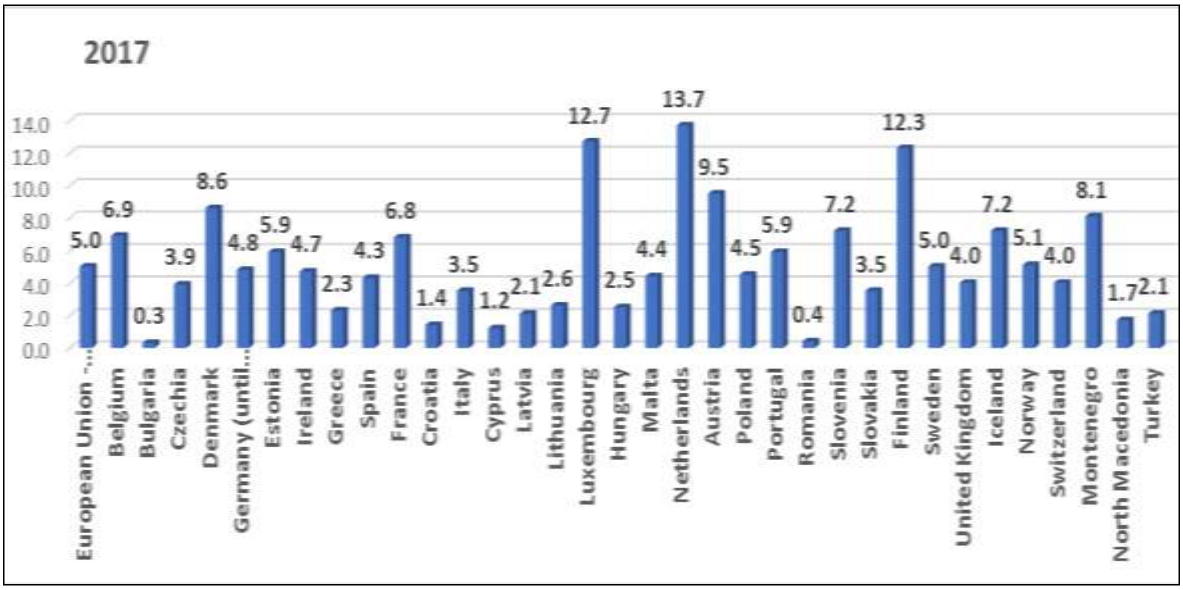

Figure 3. Percentage of employees between the ages of 15 and 64 who usually work from home, at EU28 level (2017, % of total number of jobs)

Source: Eurostat, 2019, *Employed persons working from home as a percentage of the total employment, by sex, age and professional status (%)*. [online] Available at: <https://ec.europa.eu/eurostat/data/database> [Accesed 17 March 2019].

The frequency of work at home is higher among women, at European Union level in 21 Member States, their number being higher than that of men who usually work in a different working place than the one organized by the employer.

The data analysis from Figure 4 places Romania in the last place with a percentage of 0.5% women and 0.3% men who usually work from home, the European average being 5.3% women and 4.7% men.

Luxembourg (14.2%), the Netherlands (12.6%) and Finland (11.8%) occupy the first three places in terms of the number of working women at home. However, in the Netherlands, the number of men working from home is 14.7%, thus exceeding the number of women. The same situation is found in Finland, where 12.8% of men work from home.

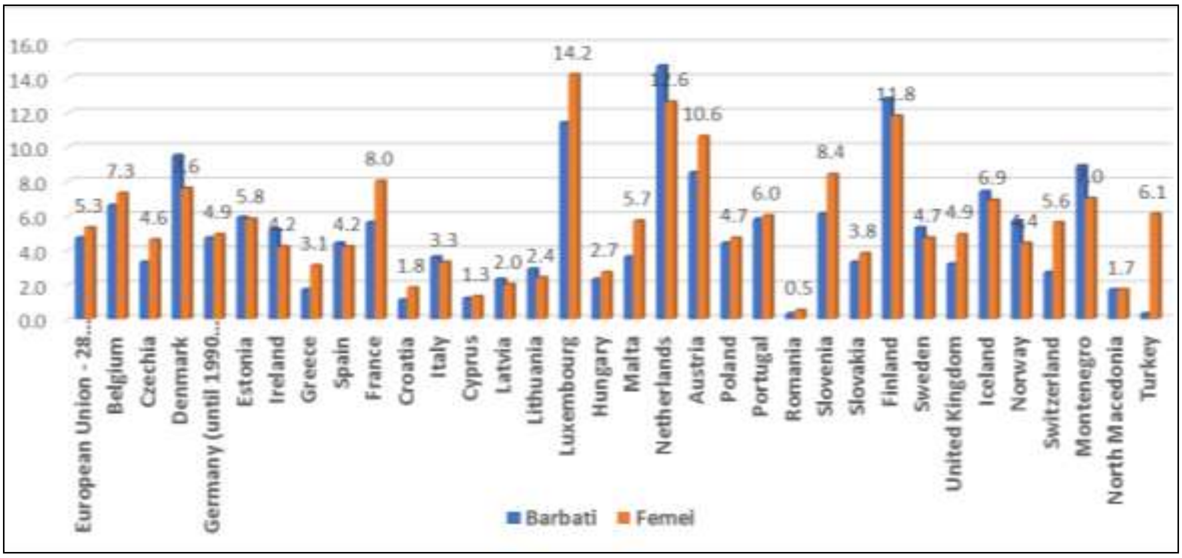

Figure 4. Percentage of male and female employees between the ages of 15 and 64 who usually work from home, at EU28 level (2017, % of total number of jobs)

Source: Eurostat, 2019, *Employed persons working from home as a percentage of the total employment, by sex, age and professional status (%)*. [online] Available at: <https://ec.europa.eu/eurostat/data/database> [Accesed 17 March 2019]

Additions to the information provided in the figure above:

- In Figure 4, the percentages added to the graph correspond to the series "Women".
- Bulgaria, for the year 2017, does not have reported data for male employees between the ages of 15 and 64 who usually work from home. Therefore it does not appear in the graph in Figure 4.

Regarding different sectors of the economy, the latest European Working Conditions Survey published in 2016 by the EU Agency for the Improvement of Living and Working Conditions - Eurofound (which includes EU28, Albania, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, as well as Norway and Switzerland (Eurofound, 2019) show that most teleworkers are in the financial and services sectors, with education taking the first place (Eurofound, 2017).

4. Conclusions

The changes covered by this law are represented by "the flexibility and adaptation of labor relations to the current socio-economic realities in relation to the dynamic evolution of the labor market" (Consiliul Economic și Social, 2017). Teleworking is beneficial for both employees and employers.

Of the positive aspects brought to the employees by this system of activity, we mention:

- they no longer have to pay the transport cost to the workplace organized by the employer;
- elimination or reduction of travel time to and from the workplace organized by the employer;
- autonomy and flexibility;
- increasing productivity by eliminating disruptive factors from the workplace;
- Teleworkers can devote more time to family, to personal development;
- people with disabilities are more likely to find a job;
- the lifestyle can become a healthier one, being known that the food ordered / consumed at work does not include, most of the times, healthy foods;
- reducing the risk of contacting communicable diseases in communities.

Of the advantages brought to the employers we mention:

- the reduction of expenses for renting spaces, for paying utilities, for discounts on the travel of employees in the interest of service;
- the possibility of hiring very well trained people from a professional point of view, located at great distances from the workplace organized by the employer, thus eliminating the geographical barriers.

In addition to the undeniable positive aspects, teleworking can also generate a number of negative aspects. Some of these are derived from the risk of leaking confidential data and information due to the use of unsafe communication channels. Another negative aspect, not to be neglected, is that some employees may be affected by the lack of socialization, the lack of direct contact with employers and colleagues, and isolation.

Although in Romania there is the lowest percentage of employees between the ages of 15 and 64 who usually work from home, we believe that over time, employers and employees will look less skeptically at this mode of activity.

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BENEFITS AND LIMITS OF THE MANAGEMENT CONTROL SYSTEM IN ROMANIA

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Abstract: *Any public or private entity wants to build its management system that allows the implementation of its own strategies and policies, thus ensuring the fulfilment of its mission and the vision through the rational use of (often limited) resources and at the same time the satisfaction of stakeholders' requirements. Business development and diversification, business performance in a turbulent, interconnected and globalized economic system, diversification of management techniques have generated the interest in control. Thus, the management control activity becomes an important step that generates multiple benefits to all organizations to the extent to which they are prepared to develop systems and procedures according to legal procedures and standards, but also adaptable to the environment. Control is the activity that provides a company management with real and preventive dynamic information which gives value and quality to the decisions made. The management control activity provides managers with the opportunity to identify real issues as it captures the substance of phenomena and the ability to define a scientific and efficient management system. To the extent that control is not limited just to finding the negative elements but also to identifying and predicting the way an activity is carried out, it can determine the maximization of advantages and the prevention of phenomena that require corrective decisions.*

Key words*: public entity, trade company, management system, management, management control*
JEL Classification: *L29, M48, M10.*

1. Methodological Approaches Regarding a Management Control System

An analysis of specialist literature shows that the first opinions regarding a management control system are made by Anthony, who presented a differentiated approach to the concepts of management control, strategic planning and operational control at Harvard Business School in 1965.

Since 1965 until now, the research has been trying to highlight issues concerning the content of the management control system, the impact upon an organization's strategy or the relationship between the management control system and competitiveness (Kim, 1997). There is also the belief that the management control system aims at settling conflicts between companies' desire for creativity and innovation and their need to achieve a predictable objective (Henri, 2006).

At present, when organizations are forced to cope with a turbulent economic, social and political environment, when globalization is an undeniable fact and the free movement of capital, goods and people brings both benefits and tensions, the management process is regarded as a mechanism that ensures the rapid transformation of an organization and the management of internal conflicts.

Management seen through its functions (Puiu, 2018) is a system that contains inseparable parts whose combination depends on a company's object of activity, organization, competence and training of the managers, the level of culture and civilization of both the internal and external environment.

Achieving the strategic objectives and the mission of an organization makes it necessary to carry out specific planning, organizing, motivating and controlling activities (Cole, 2004), thus control in a broader sense having a management function and not an assessment function (Minculete and Chisega- Negrila, 2014).

Control as a function of management is an activity that allows the monitoring and assessment of all decisions made and the development of corrective mechanisms to the extent that the direction or the results are not the ones expected (DEX, 1998).

Gâf - Deac (2014, p.67) defines control as a method by which companies can define their objectives, assess their performance, and also modify and determine their behaviour, composition and structure.

Morariu and Suciu (2004, p.19) show that, according to the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), internal control is defined as the ”process designed, implemented and maintained by the people in charge of governance, management and other categories of personnel in order to provide reasonable assurance regarding the accomplishment of an entity's objectives regarding the *credibility of financial reporting, the efficiency and effectiveness of operations, and compliance with applicable laws and regulations. The term ”controls” refers to any issues of one or several components of internal control.”*

Ordinance 119 regarding the internal/management control and the preventive financial control defines the internal control regarded as a management control as: all the forms of control exercised in a public entity, including the internal audit, laid down by the management in accordance with its objectives and with legal regulations, in order to ensure the administration of public funds economically, efficiently and effectively; it also includes organizational structures, methods and procedures. ISA Standard 315 defines internal control as a *process designed and performed by those in charge of governance, management and by other employees in order to provide reasonable assurance about the achievement of objectives regarding the credibility of financial reporting, the efficiency of performance and the compliance with applicable law*.

Cosneanu et al. (2013) believes that the entities applying management control systems are exponents of governance based on added value, generating profit, maximizing value through systems and procedures that provide the management the possibility of permanent assessment and monitoring of performance carried out.

Control is the activity that provides the management with real and preventive dynamic information that gives value and quality to the decisions made. Management control allows penetration in the substance of the phenomena equally contributing in the definition of a scientific and efficient management system. Insofar as control is not only limited to finding the negative elements but also to identifying and predicting the way performance is carried out, it can determine the maximization of profit and the prevention of the phenomena that require corrective decisions.

Munteanu (2003, p.21) thinks that controlling ensures the conditions for achieving increased profit under competition conditions, and also a system of patrimony management and performance organization and management adapted to the new realities and perfected.

Controlling must therefore be regarded as a necessity, as a means by which one will obtain the desired results and it should not be seen as a goal in itself. Controlling must be a permanent action, not only when things are not going well. Implementing a management control process can give the manager a clearer picture of how resources are used to achieve the proposed goals.

Starting from the objectives of the management control, namely to measure performance and to develop corrective steps where appropriate, one can appreciate such an activity as a feedback at the level of the whole organization that will have to define: performance standards, performance measurement manner and corrective actions. Performance standards must be properly expressed and easily verifiable. It can be appreciated that management control can be associated with the 3 E's: economy, effectiveness and efficiency (Țugui et al., 2015).

2. Need for a Management Control System. Benefits and Limits

Business development and diversification, operating in a turbulent, interconnected and globalized economic system, diversifying the business management techniques have generated the interest in control. The increased interest in creating and implementing a coherent and efficient management control system is generated by national and international legislation (Popescu, 2017).

The implementation of a management control system is the key to applying the principles of total quality management. At present, it is believed that total quality management is an important element that can influence the success of an organization. In this respect, Russu (and collaborators) states: ”In the conditions of modern economic and social life, managers' professionalization becomes a sine qua non condition, and it is only on this basis that the management approaches can significantly gain in terms of rationality, realism and response time, and provide the most suitable answers to the multiple challenges organizations are facing. ”The need to implement a management control system is generated by its characteristics, namely: it is a basic instrument of the management system; it allows to obtain a true and fair view of the way organizational objectives are achieved; it offers a correct basis for substantiating the corrective steps adopted by the management; is an element that offers the answer to risk situations; it generates costs from the point of view of resources used which implies the definition of a correct cost-benefit relation.

The accomplishment and implementation of an efficient management control system is conditioned by the qualities the system has (Ionescu, Cazan and Negrușa, 2001, p.383):

a) accuracy - for the information provided by a control system to have the desired purpose, it is necessary to design an information system that allows the processing of an impressive amount of information and provides quality feedback. Building an information system can generate specific risks such as the access of data by unauthorized people, the incorrect recording of some operations, the risk that certain employees might have access to information beyond what is absolutely necessary in fulfilling their tasks;

b) opportunity - a management control system must be built so as to provide information on time;

c) economy - building management control systems can generate substantial costs and therefore the benefits they generate must justify the costs;

d) flexibility - true control must be built in such a way as to allow adaptation to the new realities;

e) understanding - a control issue is the degree of understanding since a control activity that generates a low level of understanding has no value. In this respect, management control systems that are difficult to understand generate the frustration of employees and the desire to avoid them;

f) criteria - it is necessary that control standards be correctly substantiated, since if they are badly founded they can generate employees' lack of motivation because they can be regarded as inappropriate. That is why the standards must be defined in such a way as to motivate employees to perform their tasks as well as possible and correctly.

The limits of a management control system are generated by the way procedures are performed, namely either they are formally accomplished just to justify their existence, or they are performed in a very large number which generates insufficient knowledge. Also, another limit of the management control system considers the elaboration of procedures. To the extent that they have been taken from other companies without taking into account the specificity of activities, the internal realities, the way of organizing performance, the effects will be greatly diminished.

The limits defined by a management control system are generated by the fact that human judgment can sometimes be defective and can generate simple or complex human errors. In addition, controls can be circumvented by associating two or more people for this purpose or by inappropriately ignoring internal control by the management. The possibility of circumventing controls by the owner-manager largely depends on the control environment and especially on the owner-manager's attitude towards the importance of the internal control.

Other limits of a management control system are also generated by the distribution of tasks, namely in small entities they rather speak of multiple tasks and less of their rational distribution. It is recommended that, even for small entities, a more precise delimitation of tasks should be achieved.

Equally, the different economic-social facts have allowed the creation of management control structures adapted to specific realities, which makes it impossible to reproduce and replicate them in several countries (Bostan and Grosu, 2010).

The benefits of building a management control system exist and are not negligible at all. They consider the security and integrity of financial and operational information; the efficiency and effectiveness of operations; ensuring compliance with legal regulations in force; promoting continuous improvement of internal control; creating value through the savings it generates, the opportunities it creates and the losses avoided as a result of its performance.

It should not be neglected that a management control system can provide a true and fair view to all stakeholders involved in the life of an organization and can even be regarded as a solution to decrease the risk of bankruptcy. Reducing the limits and multiplying the benefits can be ensured through a high level of education. The improvement of professional knowledge is thus an essential requirement of carrying out an activity, with superlative attributes and efficient effects in the life of a company. Via its conclusions and recommendations, the control department firstly substantiates and determines the future decisions regarding the professionalization of the management, directly acting to amplify the company's ability to manage its specific issues. The report of the control department will generate a series of consistent opinions regarding a possible change in the eradication of dilettantism, arbitrariness and waste of resources.

As a conclusion, it is believed that management control takes into account all the actions developed by a company aiming to find the most suitable solutions for managing the risks pursued by each element and by the accounting reporting system (Prozan, 2015).

3. National Regulations Regarding Management Control System in Public Institutions

The importance of applying an adequate management control system has meant that the Romanian legislation has defined a series of standards targeting public entities. It can be appreciated that their application can also be done at the level of trade companies as their benefits are undeniable. That is why it is necessary to know them. The purpose of the standards is to create a uniform and coherent internal management control model which allows comparisons between entities of the same type or within the same entity at different times and to make it possible to highlight the results of an entity and its evolution. In this respect, the General Secretariat of the Government has issued a regulation defining the standards of the management control system via Order 600/2018 whose components are presented briefly:

a) Control Environment

- Standard 1 - Ethics and integrity - mainly aims at implementing a code of conduct, certain policies to ensure compliance with ethics both within the organization and outside it;
- Standard 2 - Duties, functions, tasks - which aims at ensuring the presence of organization and operation regulations, internal regulations, job descriptions in an entity;
- Standard 3 - Competence, performance - considers the definition of adequate human resources policies, namely carrying out recruitment, selection and employment policies to ensure human resources suitable to the job requirements;
- Standard 4 - Organizational structure - achievement of an organizational structure in relation to the strategic mission and objectives of an entity.

b) Performance and Risk Management

- Standard 5 - Objectives – involves the correct definition of an organization's objectives in relation to the mission and vision and complying with the specific legislation but also communicating them to all company employees;
- Standard 6 - Planning - which aims at applying the planning function as often as possible by defining appropriate policies that include objectives to be achieved, deadlines, maximum resources to be allocated, people in charge, risks that may affect fulfilment;
- Standard 7 - Performance monitoring - aims at defining the system of monitoring the activity performed by employees by correctly setting qualitative or quantitative performance indicators;
- Standard 8 - Risk management - aims at organizing and implementing a risk management system to quantify the influence of risk elements on an organization's performance.

c) Control Activities

- Standard 9 - Procedures - preparation of procedures in a unitary way and informing stakeholders about the former's existence and content;
- Standard 10 - Supervision - creating and implementing certain monitoring and control tools specific to the activities carried out that will generate the achievement of objectives in terms of efficiency and effectiveness;
- Standard 11 - Business continuity - by which the entity management can identify the main risks that may affect performance, and also develop and apply steps that allow its continuation.

d) Notification and Communication

- Standard 12 - Notification and communication - by which an internal and external communication system is created within the entity by defining the type, content, quality, frequency and recipients of information;
- Standard 13 - Document management - which defines how to create, process, manage and archive internal documents and those coming from the external environment;
- Standard 14 - Accounting and financial reporting - defining an internal control system namely the management is assured that the information used to reflect a financial - accounting status is correct, complete and provided on time.

e) Assessment and Audit

- Standard 15 – Assessing an internal management control system - the standard envisages the creation of an internal control system by the entity manager by defining the responsibilities, policies, and specific programmes, of the responsibilities of people carrying out such activities;

- Standard 16 - Internal audit - aims at creating an internal audit department within an entity in order to improve management performance.

The report on internal management control for 2017 prepared in the General Secretariat of the Government shows that of the 55 main credit authorizing officers, 81.1% have implemented internal management control standards, of whom only 27.3% (15) have fully implemented them. The analysis has also revealed that the highest level of implementation has been achieved for S1 - Ethics and integrity and S15 Assessing an internal management control system (96.4%), whereas the lowest level of implementation has been reported for S9 procedures (52.7%).

4. Conclusions

The paper has aimed at carrying out an objective analysis of the benefits and limits offered by the existence of a management control system given some legal regulations regarding public institutions.

The project has been made starting from the belief that controlling should be regarded as an objective and subjective necessity, as a means of improving executive performance, including its management process. It was also based on the premise that the implementation of a management control system can generate positive effects not only for employees or stakeholders, but also for investors as it allows to increase confidence in the activities carried out, to reduce fraudulent actions or instability. Management control represents a complex activity that generates multiple benefits for all organizations, to the extent to which they are prepared to develop systems and procedures adapted to specific realities and at the same time being adaptable.

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STATISTICAL SURVEY ON PEOPLE AT RISK OF POVERTY OR SOCIAL EXCLUSION IN THE EUROPEAN UNION

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***Abstract**: The main aim of this research paper is to conduct a statistical survey on people at risk of poverty or social exclusion in the European Union. Poverty and social exclusion highlight multidimensional sociological aspects with significant implications for the level of economic growth and sustainable development, especially in the case of emerging countries. People at risk of poverty or social exclusion represent a vulnerable group of high risk but implementing sustainable public policies can be an effective solution in order in order to minimize or even to eradicate social inequalities. Moreover, the research article provides a comparative analysis of the concepts of relative poverty and absolute poverty based on a set of international standards. Legally, everyone has the right to an adequate standard of living and basic social protection. However, empirical results reveal significant differences between developed countries and developing countries in the European Union in terms of poverty or social exclusion.*

***Keywords**: poverty, social exclusion, sustainable development, social inequality, international standards, ESG characteristics, globalization.*
***JEL Classification**: F0, J0, I31, H0, O2.*

1. Introduction

The main objective of this research article is to provide a useful statistical survey framework on people at risk of poverty or social exclusion in the European Union. Currently, European Union is facing serious challenges such as: the recent waves of Muslim immigrants, the Brexit process, the emergence of nationalist and extremist parties that dramatically influence politics in some Member States. In addition, poverty and social exclusion are phenomena with severe global implications which affect the sustainable development of the European Union.

The concept of poverty does not have the same meaning as social exclusion or social inequality. Poverty has a quantitative measure, especially in economic terms. UNESCO classifies poverty in two main categories: absolute poverty which is a concept related to the amount of money necessary to meet basic needs such as food, clothing, and shelter, and relative poverty which is a concept related to the economic status of other members of the society. As a criticism, the concept of absolute poverty ignores essential aspects such as social insecurity, quality of life or social exclusion. Moreover, the concept of extreme poverty is associated with the critical situation of severe income poverty related to the amount of less than 1$ a day. The most representative income indicators are AROP (at-risk-of-poverty rate for the total population) and QSR (income quintile share ratio). According to EUROSTAT, AROP or at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers, while QSR or the income quintile share ratio or the S80/S20 ratio is a measure of the inequality of income distribution which is calculated as the ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20 % of the population with the lowest income (the bottom quintile). However, there is no generally accepted explanation of poverty as a global social phenomenon.

2. Literature review

The conceptual importance of a literature review is the argumentation of selected research themes. Moreover, the literature includes various empirical and theoretical studies on the phenomena of poverty and social exclusion. Rank and Hirschl (2015) have conducted an empirical research study and have concluded that between the ages of 25 and 60, 61.8 percent of the population will experience at least one year of poverty, whereas 42.1 percent will experience extreme poverty, while statistics indicate that 24.9 percent of the population will encounter five or more years of poverty, and 11.4 percent will experience five or more years of extreme poverty. Beker (2016) investigated the relationship between economic growth, income inequality and poverty and suggested that economic growth reduces poverty if income distribution remains constant over time, and that initial level of poverty has a negative effect on growth rates, and a high poverty rate also weakens the effect of growth on reducing poverty.

Chzhen, de Neubourg, Plavgo and de Milliano (2016) conducted an empirical research study based on Multiple Overlapping Deprivation Analysis for the European Union (EU-MODA) which compares the living conditions of children across the EU member states considering that poverty has serious consequences for children's well-being as well as for their achievements in adult life. Chaudry and Wimer (2016) have analyzed the implications of poverty and low income on children's development and well-being and have concluded that these issues affect the development of children, especially cognitive developmental, while other factors of influence are related to timing, duration, and community context of poverty. Moreover, Thevenot and Smeeding (2016) argued that poverty during childhood is a traumatic process considering that the earliest years are critical in terms of future cognitive and emotional development and early health outcomes, and have long-lasting consequences on future health.

Eurofound and International Labour Organization (2019) suggested in their most research report that in the case of EU28, long-standing trends towards greater tertiarisation of the economy, the process of feminisation of the labour force, the new wave of technological change – digitalisation, the spread of non-standard employment arrangements such as temporary work, part-time work, agency work, have all influenced the nature of work and employment. On the other hand, Baker Collins (2005) investigated relevant aspects on the contribution of local knowledge to an understanding of poverty as well as the limitations of participation in changing social policy.

Balisacan (2011) provided a detailed empirical framework on both income-based poverty and multidimensional poverty and suggested that "that nothing less than economic growth, even in the short term, is required to reduce poverty" given the fact that poverty is perceived as a multidimensional phenomenon with various implications. In a previous study, Milanovic (1995) investigated the transformation process of poverty and income inequality during the early period of transition to a market economy and identified two main pillars of social policy in transition economies, ie pension reform and better targeting of social assistance.

On the other hand, Silver (2007) defined social exclusion as a dynamic process of progressive multidimensional rupturing of the 'social bond' at the individual and collective levels and precludes full participation in the normatively prescribed activities of a given society and denies access to information, resources, sociability, recognition, and identity, eroding self-respect and reducing capabilities to achieve personal goals. Practically, social exclusion is the inability to participate completely in society as well as in social activities. The relationship between exclusion and poverty is very complex and exceds the basic framework of purely economic consequences considering its extensive social implications. Madanipour, Shucksmith and Talbot (2015) analyzed the relationship between poverty and social exclusion and suggested that focusing on the economic dimension at the expense of other sides generates vulnerabilities especially in the context of major social issues.

3. Empirical analysis and statistical results

Independent specialized organizations and agencies classify world countries in certain categories based on internationally-agreed standards. Morgan Stanley Capital International (MSCI) Country Classification Standard provides a first classification of world's countries into the following three categories: developed markets, emerging markets, and frontier and standalone markets. Secondly, London Stock Exchange Group provides FTSE Equity Country Classification which is another internationally recognized country classification based on the following main categories: developed, advanced emerging, secondary emerging and frontier. Moreover, S&P DJI's Global Equity Indices Country Classification provides another recognized international classification by using quantitative data to initially assess market eligibility for the three major country classifications: developed, emerging and frontier. The European Union includes the following Member States : Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Finland, France, Germany, Greece, Hungary, Ireland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom (currently in full BREXIT process). Some EU Member States are included in the developed country category, but others are included in the category of emerging countries.

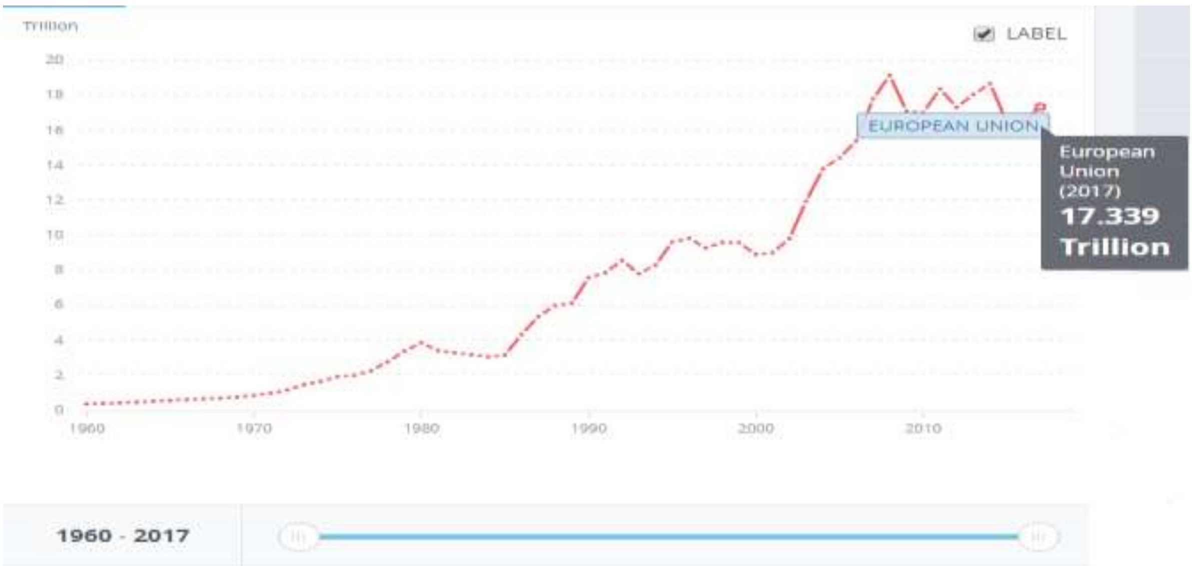

Figure 1. GDP (current US$) of European Union (E.U) for the period 1960-2017

Source: World Bank national accounts data, and OECD National Accounts data files.

According to official statistics provided by the World Bank, the economic growth in the European Union (EU) is increasingly solid, both in terms of its pace and composition considering that the European economy has entered its fifth year of recovery, with a positive impact on all member countries even that private consumption remained the main driver of growth.

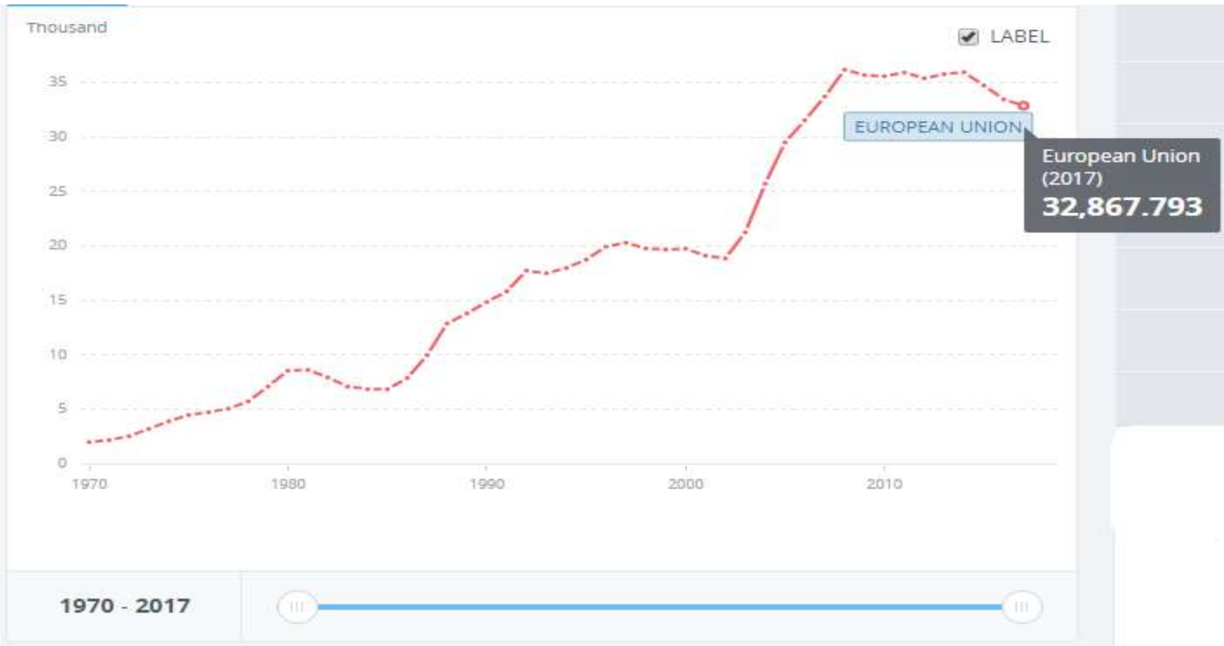

Figure 2. GNI per capita, Atlas method (current US$) for the period 1970-2017
Source: World Bank national accounts data, and OECD National Accounts data files.

The World Bank provides a classification of world's countries or economies based on four main groups according to the income criterion, ie low, lower-middle, upper-middle, and high based on gross national income (GNI) per capita, value calculated in the the currency of United States (dollars) by using the World Bank Atlas method. The low-income economies are defined by the World Bank as those with a GNI per capita of $995 or less in 2017; lower middle-income economies are those with a GNI per capita between $996 and $3,895; upper middle-income economies are those with a GNI per capita between $3,896 and $12,055; high-income economies are those with a GNI per capita of $12,056 or more. All previous informations apply for the current fiscal year, ie 2019.

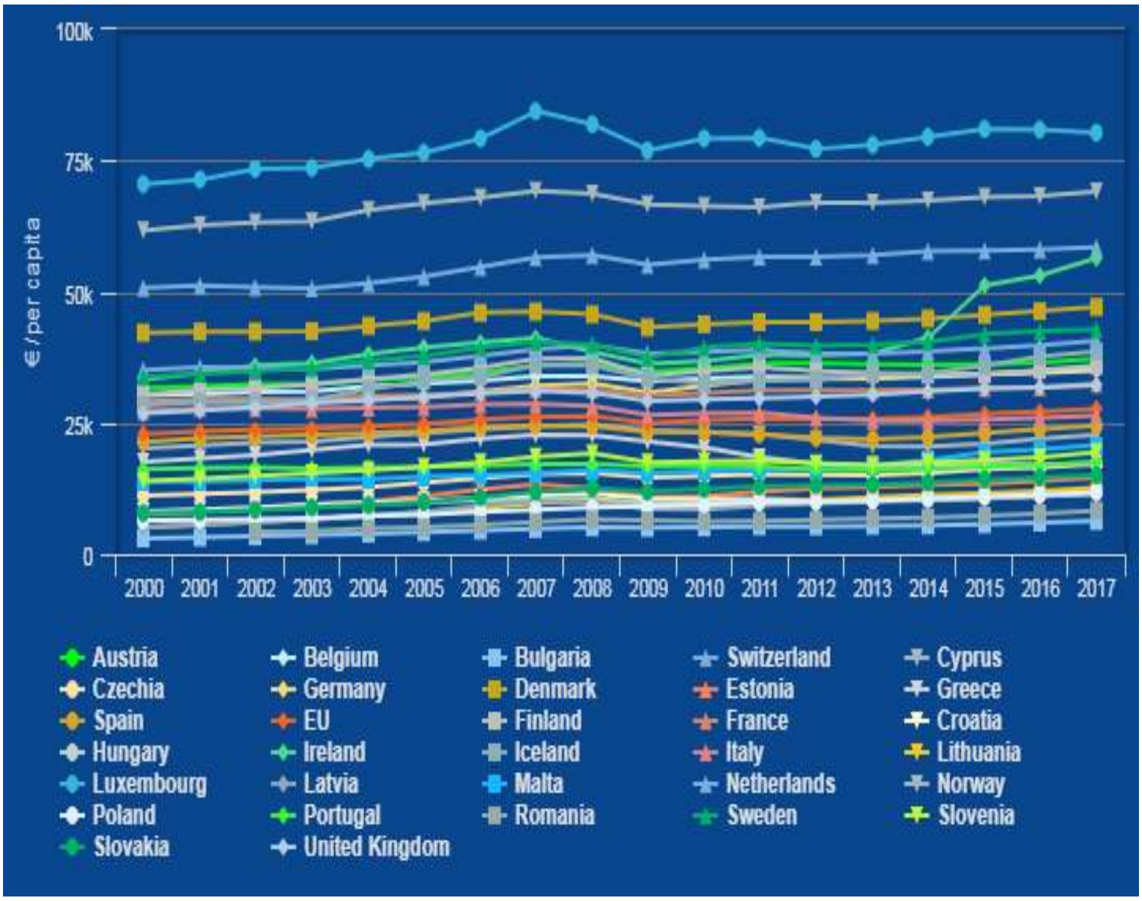

Figure 3. Real GDP – A comparative analysis between the Member States of the European Union (in euro per capita)

Source: Authors own computation based on Eurostat databases.

The United Nations 2030 Agenda for Sustainable Development recently established global Sustainable Development Goals in order to end poverty and hunger everywhere; to combat inequalities within and among countries; to build peaceful, just and inclusive societies; to protect human rights and promote gender equality and the empowerment of women and girls; and to ensure the lasting protection of the planet and its natural resources. Beyond significant global implications, this United Nation Sustainable Development Goals(SDGs) are the following:

Goal 1. End poverty in all its forms everywhere;

Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture;

Goal 3. Ensure healthy lives and promote well-being for all at all ages;

Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;

Goal 5. Achieve gender equality and empower all women and girls;

Goal 6. Ensure availability and sustainable management of water and sanitation for all;

Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all;

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;

Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation;

Goal 10. Reduce inequality within and among countries;

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable;

Goal 12. Ensure sustainable consumption and production patterns;

Goal 13. Take urgent action to combat climate change and its impacts;

Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development;

Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss;

Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels;

Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development;

The Europe 2020 strategy has set very ambitious goals including in terms of combating poverty and social exclusion, ie at least 20 million fewer people in – or at risk of – poverty/social exclusion. Moreover, the new strategy implemented by the European Union is focusing on inclusive growth, namely on empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and social protection, systems so as to help people anticipate and manage change, facilitating the spread of economic growth benefits to all parts of the European Union and build a cohesive society.

4. Conclusions

The empirical findings highlight the importance of combating the phenomena of poverty and social exclusion at the level of the European Union. Economic growth is an effective tool in reducing poverty, increasing employment rates and improving living standards. In recent years, the European Union has made some progress in meeting its goals on poverty eradication and combating social exclusion based on community policy strategies. However, there is still a clear discrepancy between developed countries and developing countries in the European Union. Developed countries should implement sustainable intervention actions in order to combat poverty and social exclusion in developing (emerging) countries. In another train of thoughts, fiscal policy consolidation has a significant contribution to reducing the negative effects of poverty and social exclusion.

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APPENDICES

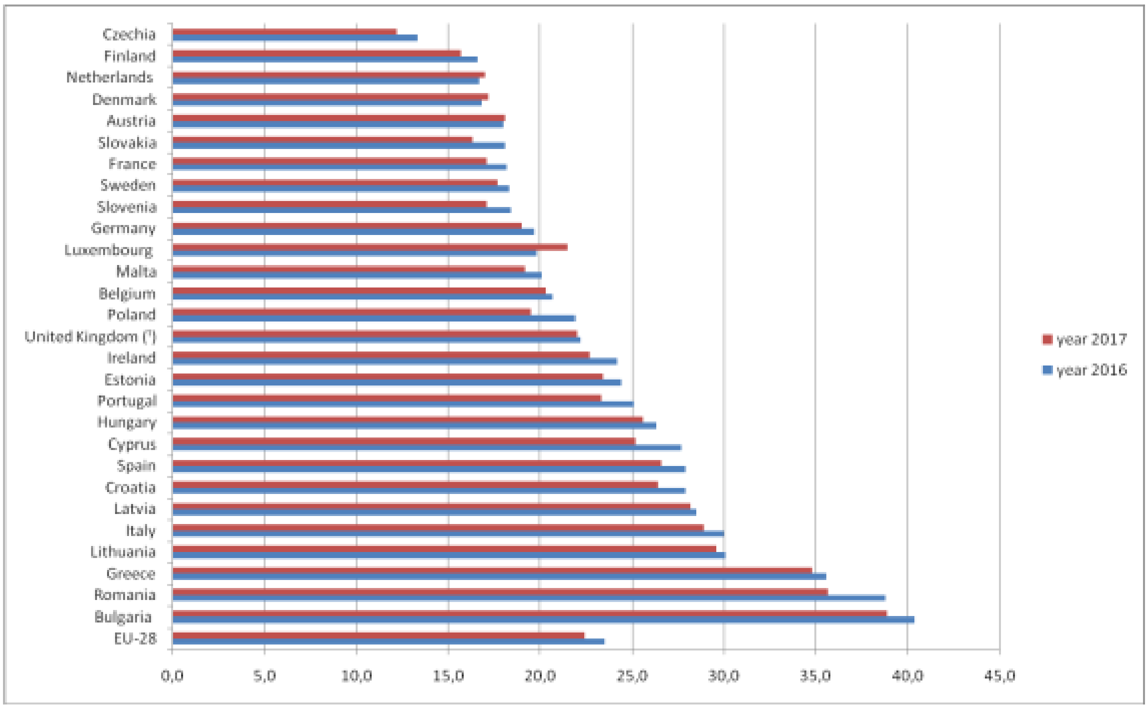

Figure 4. Distribution of the population at risk of poverty or social exclusion rate, 2016-2017 (%)

Source : Authors own computation based on Eurostat databases.

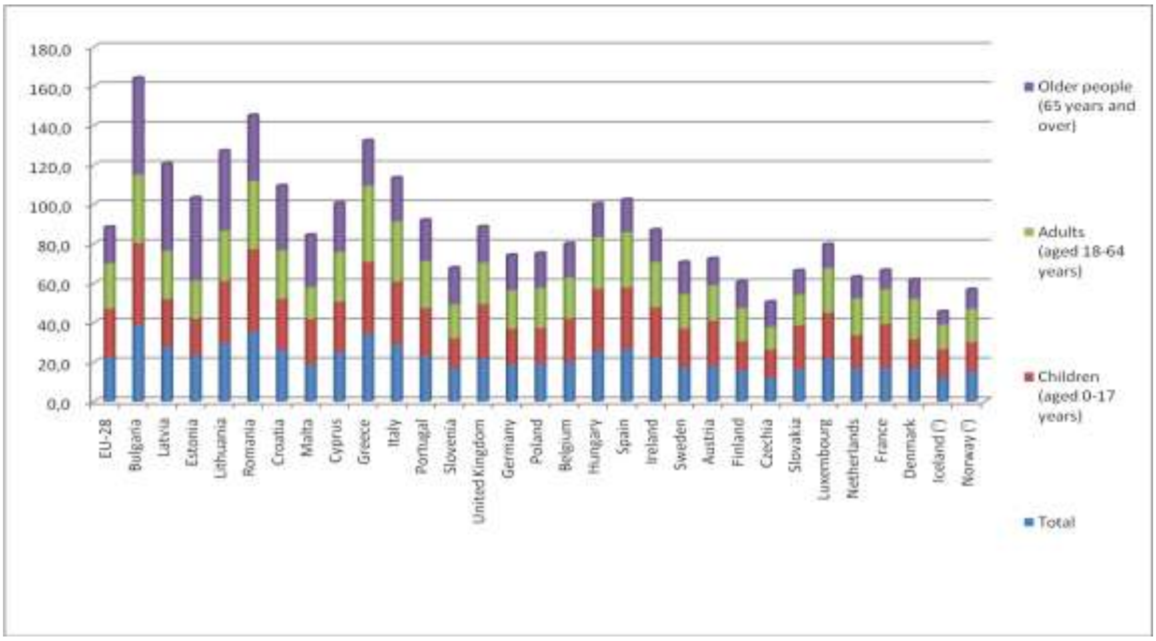

Figure 5. People at risk of poverty or social exclusion, distributed by age group in 2017

Source : Authors own computation based on Eurostat databases.

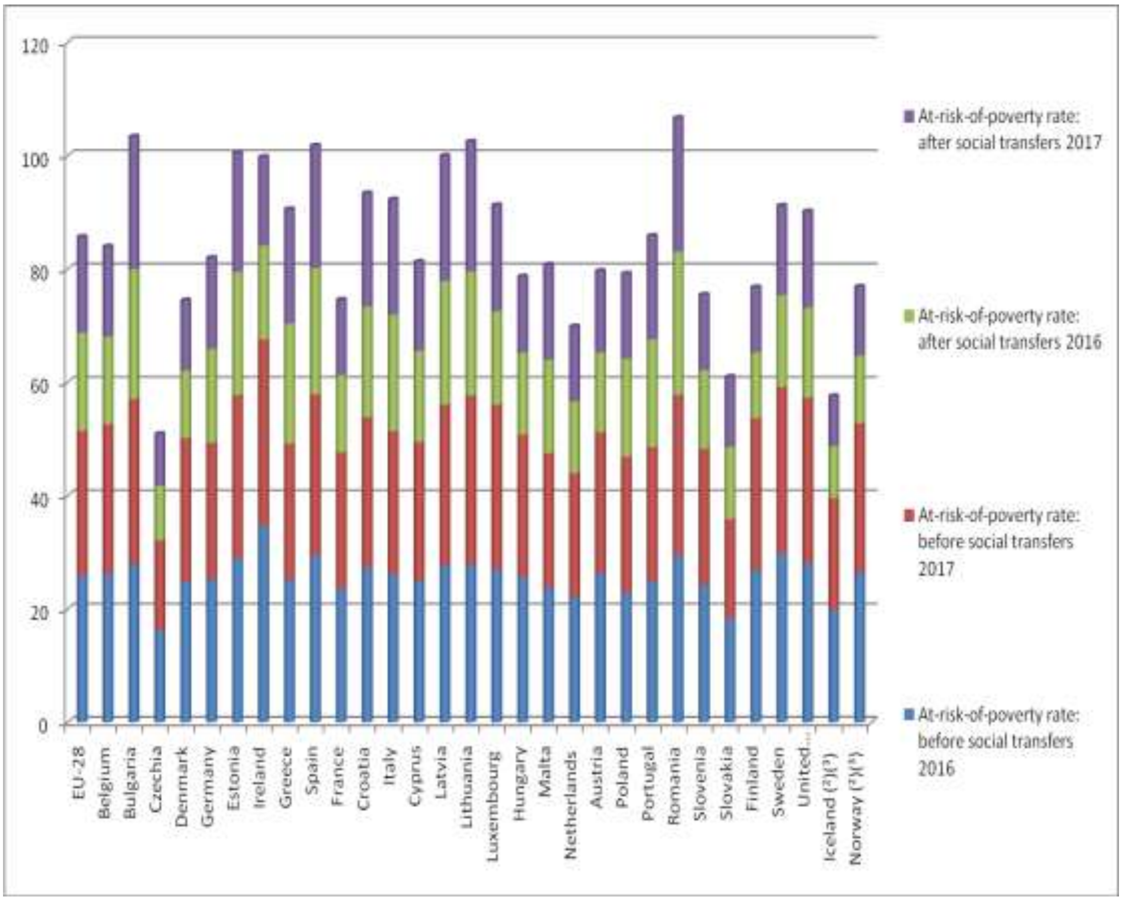

Figure 6. Single person households at risk of poverty before and after social transfers for the years 2016 and 2017

Source : Authors own computation based on Eurostat databases

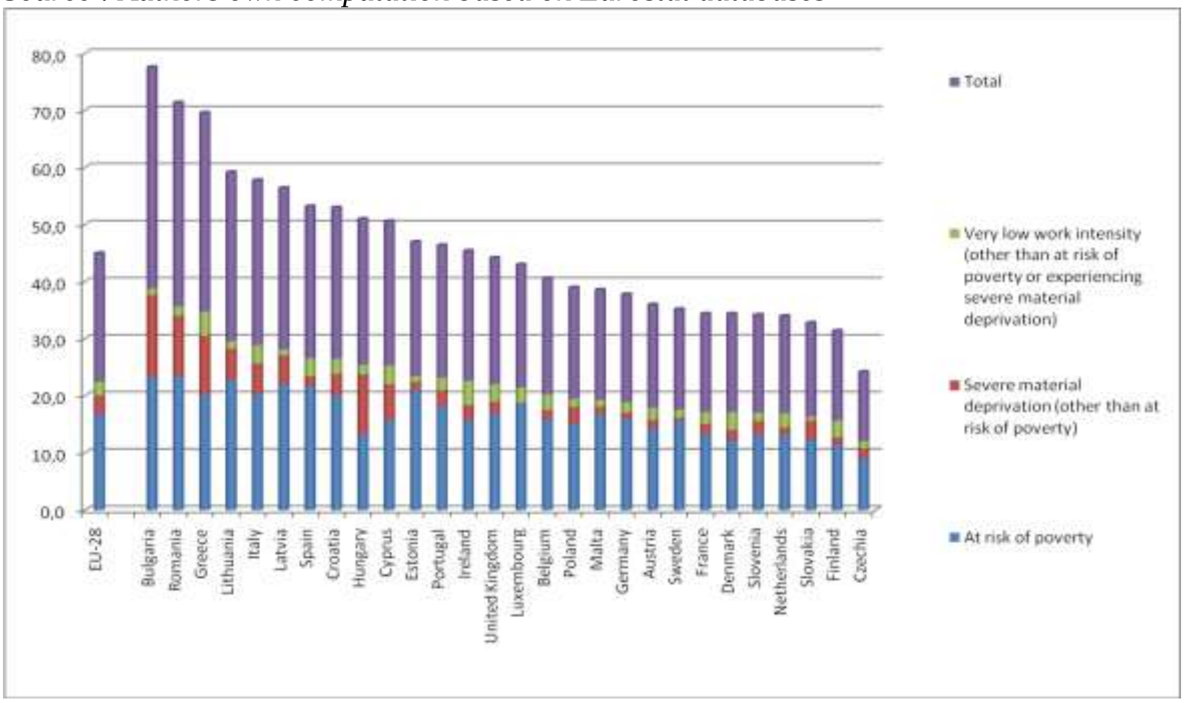

Figure 7. Population at risk of poverty or social exclusion in 2017

Source : Authors own computation based on Eurostat databases

Table no. 1. People at risk of poverty or social exclusion, distributed by age group in 2017

	Total	Children (aged 0-17 years)	Adults (aged 18-64 years)	Older people (65 years and over)
EU-28	22,4	24,9	23,0	18,2
Bulgaria	38,9	41,6	34,8	48,9
Latvia	28,2	23,9	24,5	43,9
Estonia	23,4	18,8	19,2	42,0
Lithuania	29,6	31,6	25,7	40,3
Romania	35,7	41,7	34,6	33,2
Croatia	26,4	25,8	24,6	32,7
Malta	19,2	22,8	16,1	26,4
Cyprus	25,2	25,5	25,3	24,6
Greece	34,8	36,2	38,6	22,8
Italy	28,9	32,1	30,5	22,0
Portugal	23,3	24,2	23,9	20,7
Slovenia	17,1	15,1	17,3	18,3
United Kingdom	22,0	27,4	21,3	18,0
Germany	19,0	18,0	19,6	17,7
Poland	19,5	17,9	20,4	17,4
Belgium	20,3	22,0	20,7	17,1
Hungary	25,6	31,6	26,3	16,8
Spain	26,6	31,3	28,2	16,4
Ireland	22,7	25,2	23,0	16,2
Sweden	17,7	19,4	17,5	16,1
Austria	18,1	23,0	18,0	13,4
Finland	15,7	15,1	16,7	13,2
Czechia	12,2	14,2	11,5	12,6
Slovakia	16,3	22,5	15,5	12,1
Luxembourg	21,5	23,6	22,8	11,8
Netherlands	17,0	16,6	19,0	10,6
France	17,1	22,3	17,7	9,5
Denmark	17,2	14,5	20,6	9,5
Iceland (1)	12,2	14,4	12,6	6,4
Norway (1)	15,3	14,9	17,1	9,5

Source : Eurostat databases.

EFFECT OF LIQUIDITY AND LEVERAGE ON FINANCIAL PERFORMANCE OF NIGERIAN LISTED CONSUMER GOODS FIRMS

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Abstract: *The study examined effect of leverage and liquidity on financial performance of Nigerian firms using data of seventeen consumer goods firms listed on the Nigerian Stock Exchange during the financial years, 2012 to 2017. The study adopted multiple regression method, with pooled Ordinary Least Squares as estimation technique. The finding revealed that leverage proxies- degree of operating leverage and degree of combined leverage have significant effect on financial performance. The study could not however provide empirical evidence in support of liquidity proxies- current ratio and quick asset ratio having significant effect on performance of the companies. The study recommended that in order to improve profitability level, corporate managers and top decision makers should take advantage of debts' tax shield from the interest in companies' financial structure and develop robust strategies that will monitor and efficiently manage liquidity requirements.*

Keywords: *Current ratio, Quick ratio, Leverage, Liquidity, Profitability.*
JEL Classification: *G32, M41.*

1. Introduction

One of the difficult and demanding corporate decisions that organisations face is the preference of mixture of capital structure while taking into consideration the nexus between profitability and risks (Titman and Wessel, 1988). Leverage is the proportion of fixed interest capital (that is, debt and preference share capital) in financing the operations of organisations. Hence, it is expected that when the degree of leverage is high, the risk associated with meeting fixed payment outstanding of a firm will also increase (Akinsulire, 2011).

Liquidity management is the management of firms' investment in current assets, current liabilities, short-term borrowings and the management of surplus or deficit cash for short term periods (Pandey, 2010). On the other hand, financial performance or profitability is ability of organisations' management to use resources efficiently in the main operation of business in order to generate sufficient revenue and be able to give returns to the diverse stakeholders.

Leverage and liquidity are interrelated as levered company employs liquid assets as a precaution in order to absorb the economic shocks in the market and also to service debt and the consequential future fixed charges (Oduol, 2011). It can therefore be argued that leverage and liquidity management are major factors that are likely to influence firms' profitability.

There is no doubt to the fact that the literature is replete in terms of studies on leverage and liquidity, however, findings from these various studies have remained tenuous. This may be as a result of different measurements used to proxy the variables involved. A review of extant literature shows that some studies such as Bei and Wijewardana (2012) Enekwe, Agu and Eziedo (2014), Kaya (2014), Ahmad, Salman and Shamsi (2015), Adenugba, Ige and Kesinro (2016) and Nwanna and Ivie (2017), focused only on the relationship between leverage and profitability while on the other hand, others like Ibe (2013), Lartey, Antwi and Boadi (2013), Alzorqan (2014), Ahmad (2016), Nabeel and Hussain (2017) and Edem (2017) focused on the nexus between liquidity management and profitability.

Furthermore, majority of empirical studies reviewed (Bei and Wijewardana, 2012; Lartey et al., 2013; Acheampong, Agalega and Shibu, 2014; Raheel and Shah, 2015; Ghasemi and Ab Razak, 2016; Moghaddam and Abbaspour, 2017; Mulyana, Zuraida and Saputra, 2018) are not carried out in Nigeria. Some works (Moghaddam and Abbaspour, 2017; Mulyana et al., 2018) considered the effect of liquidity and leverage on profitability of firms but none on consumer goods firms in Nigeria.

The present study tried to mitigate the aforementioned gaps by having a primary objective of examining the effect of liquidity and leverage on performance of 17 quoted consumer goods firms in Nigeria. The secondary objectives of the study are divided into two. These are (1) to explore the effect of liquidity on profitability; and (2) to ascertain the effect of leverage on profitability.

The remaining part of this study is as follows: section two involves the review of relevant literature, section three is on the methodology adopted, section four considers the results and discussion while section five concludes the study.

2. Literature Review

Conceptual Framework

The main concepts in this study are leverage, liquidity management and profitability. Leverage is the proportion of fixed interest capital in the financial structure of organisations while liquidity measures the nexus between current assets and current liabilities. Profitability is the ability of organisations' management to use resources efficiently in order to generate sufficient revenue.

For the purpose of this study, leverage is measured via three constructs – Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL) and Degree of Combined Leverage (DCL) while liquidity is measured via two constructs – Current Ratio (CR) and Quick Ratio (QR). Profitability is measured via the firms' Earnings per Share (EPS).

Theoretical Framework

Discussions on leverage and liquidity have been based on various propositions by different scholars in the past. Three major theories underpin this study and are briefly discussed in turn.

Pecking order theory of Myers and Majluf (1084) posits that firms prefer internal financing if it proves to be sufficient but resort to external source where the internal financing is insufficient. For the external source, the order of preference based on the cost of each source is as follows: long-term borrowing, short-term borrowing and equity as a last option. However, for developing countries, a new Pecking order theory (Reverse Pecking Order) has been considered and it is characterised by a reassessment of the financing preference thus; retained earnings, equity, long- term debt and lastly short-term borrowing.

Trade-off theory suggests that firms determine their optimal financial structure by maintaining a balance between the costs of taking additional debt (bankruptcy) and the benefits derivable (tax deductibility of interest).

Agency theory describes the relationship between principals (shareholders) and agents (managers) where the agents are expected to act in the interest of the principals. However, due to personal interest, the agents decide to work against the interest of the owners of the business. Monitoring costs are expected to be incurred by owners of the business so as to keep watch over the behaviour of the agents (Jensen & Meckling, 1976).

Related Empirical Studies

Oduol (2011) explored the influence of liquidity on leverage of listed companies in Kenya. The study focused on thirty quoted firms from 2006 to 2010. Secondary data were sourced and analysed via multivariate regression analysis. The finding revealed that there is an indirect and insignificant association between liquidity and leverage. It was suggested that organisations should put in place good working capital management practice as well as short cash conversion cycles.

Bei and Wijewardana (2012) made an attempt to investigate whether financial leverage influences the firm's growth. The study considered sixty-two Sri Lankan companies from 2000 to 2009. Finding revealed that financial leverage is directly related to firms' growth and financial strength in Sri Lanka's firms.

Akinlo and Asaolu (2012) investigated the profit profile of Nigerian firms and also analysed the effect of leverage on profitability of sixty-six Nigerian listed non-financial firms from 1999 to 2007. The data were analysed via chi-square and pooled Ordinary Least Squares (OLS). The findings suggested that leverage was indirectly related to profitability.

Enekwe, Agu and Eziedo (2014) examined the effect of financial leverage on financial performance of three listed Nigeria pharmaceutical companies from 2001 to 2012. The study reported that financial leverage has indirect relationship with financial performance.

Kaya (2014) studied the influence of leverage on U.S companies' profitability and liquidity variables from 2000 to 2005. The study revealed that highly levered retail and wholesale trade firms have a tendency to suffer from liquidity problem while highly levered retail firms have a tendency to suffer from profitability problem. However, the results for highly levered wholesale firms are mixed. Above all, it was reported that higher return on equity for highly levered wholesale firms was as a result of severely depressed equity values.

Onofrei, Tudose, Durdureanu and Anton (2015) examined the determinant factors of firms' leverage among three hundred and eight-five micro and small enterprises in Romania from 2008 to 2010. It was reported that leverage is negatively related to liquidity.

Gombola, Ho and Huang (2016) examined the effect of leverage and liquidity on earnings and capital management of U.S. commercial banks from 1999 to 2003. The result of the study indicated an inverse association between earnings management and liquidity measures if all other things being equal, aggressive earnings management behaviour metamorphosed into aggressive leverage and liquidity policies.

Hiadlovsky, Rybovicova and Vinczeova (2016) studied the link between liquidity and profitability of one hundred and eighty-eight tourism-based companies operating in Slovakia from 2011 to 2014. The results revealed a weak association between liquidity management and profitability.

Nabeel and Hussain (2017) studied the effect of liquidity management (current, quick, cash, interest coverage and capital adequacy ratios) on banks' profitability in 10 Pakistani banks. from 2006 to 2015. The study adopted both the correlation and regression techniques in testing the hypotheses. The study reported that interest coverage, capital adequacy and quick ratios have direct while cash and current ratios have an indirect association with banks' profitability proxies (ROA, ROE and EPS).

Edem (2017) investigated the impact of liquidity management on performance (Return on Equity) of twenty-four Nigerian commercial banks for the period, 1986 to 2011. The regression results revealed a significant relationship existed between liquidity management measures and return on equity of (DMBs) in Nigeria.

Oyedokun, Job-Olatunji and Sanyaolu (2018) explored the effect of capital structure on financial performance of 10 Nigerian listed manufacturing companies during 2007-2016. Results revealed statistically insignificant association between capital structure and performance.

3. Methodology

Research Design and Source of Data

The study adopted ex-post facto research design as the data used were readily available and extracted from the published annual reports of the sampled companies and the various editions of the Nigerian Stock Exchange Fact Book.

Population, Sample and Sampling Technique

Consumer goods firms listed on the floor of the Nigerian Stock Exchange as at December 31, 2018 is 28 and this constitutes the population of the study. Using purposive sampling technique, 17 firms were selected as sample for the study for the period 2012-2017. The list of the firms is provided in Appendix 1.

Data Analytical Technique

The multiple regression method was adopted with pooled Ordinary Least Square (OLS) as estimation technique. This is consistent with some prior works (Akinlo and Asaolu, 2012; Ibe, 2013; Adenugba et al., 2016; Ghasemi and Ab Razak, 2016).

Variable Description and Development of Hypotheses

Dependent variable

Earnings per Share (EPS): This is the only dependent variable adopted by the study. It is one of the variant for measuring the efficiency of the management in using the shareholders ordinary share capital to create and maximise their wealth. It has been used in prior literature as a proxy for profitability (Patel, 2014; Raheel and Shah, 2015; Kwarbai, Olayinka, Ajibade, Ogundajo and Omeka, 2016; Nabeel and Hussain, 2017).

Independent variables

In this study, two surrogates have been used to capture liquidity and three for leverage as proxies for the independent variable. The two variables considered for liquidity are current ratio and quick ratio while leverage is proxy by DOL, DFL and DCL (Patel, 2014; Raheel and Shah, 2015).

Control variable

In order to make the result of the model robust, firm size has been introduced as control variable. It is suggested that larger firms may attract more profits than smaller firms (Titman and Wessels, 1988; Bevan and Danbolt, 2002; Lipunga, 2014; Kajola, 2015; Djalilov and Piesse, 2016).

Hypotheses

The following hypotheses are formulated and tested:

Ho1: Degree of operating leverage has no significant effect on profitability of firms.
Ho2: Degree of financial leverage has no significant effect on profitability of firms.
Ho3: Degree of combined leverage has no significant effect on profitability of firms.
Ho4: Current ratio has no significant effect on profitability of firms.
Ho5: Quick asset ratio has no significant effect on profitability of firms.

Model specification

The specific model used for the study was a modified form of Patel (2014) and Raheel and Shah (2015) models and is provided in equation 3.1.

$EPS_{it} = \beta_0+\beta_1 DOL_{it} + \beta_2 DFL_{it+} \beta_3 DCL_{it} + \beta_4 CR_{it} + \beta_5 QR_{it}+ \beta_6 SZE_{it} + e_{it} \ldots$ (3.1)

Where;

EPS_{it} = Earnings per share of firm in period t
DOL_{it} = Degree of operating leverage of firm in period t
DFL_{it} = Degree of financial leverage of firm in period t
DCL_{it} = Degree of combined leverage of firm in period t
CR_{it} = Current ratio of firm i in period t
QR_{it} = Quick ratio of firm i in period t
SZE_{it} = Size of firm i in period t
e_{it} = Stochastic error term

Measurement

The way the study variables are computed is shown in Table 1.

Table 1. Measurement of the Study's Variables

Variable	**Acronym**	**Measure**	**Expected signal**
Dependent variables			
Earnings per share	EPS	Profit before interest and tax (PBIT) / Number of equity shares	
Independent variables			
Degree of operating leverage	DOL	Percentage change in PBIT / Percentage change in Turnover	+
Degree of financial leverage	DFL	Percentage change in EPS / Percentage change in PBIT	+
Degree of combined leverage	DOL	DOL x DFL	+
Current ratio	CR	Current assets / Current liabilities	-
Quick ratio	QR	Current assets - inventory / Current liabilities	+
Firm size	SZE	Natural log of firms' total assets	+

Source: Authors' compilation, 2019.

4. Results and Discussion

Descriptive Statistics

Table 2 presents the descriptive statistics. It shows that the average EPS is 3.7% with corresponding minimum values of -2.51% and maximum value of 42.5%. The average degree of operating leverage (DOL) is 20% with minimum of -109.2% and maximum 1293.1%. Degree of financial leverage (DFL) is averaged 65.9% and ranges between -147.8% and 3886.4%. Also, degree of combined leverage shows an average value of 37.9% and ranges from -109% to 770%. Current ratio is averaged 1.16:1 with minimum of 0.07:1 and maximum of 2.88:1 Quick ratio has a mean value of 0.82:1 with a minimum of 0.05:1 and corresponding maximum of 2.20:1. Finally, log of firm size has a mean of 17.6 and ranges between 14.27 and 22.40. The variable with the greatest variability from mean is DFL with standard deviation of 407.15 and the one with the least variability is QR with standard deviation of 0.474.

Table 2. Summary of Descriptive Statistics

	EPS	DOL	DFL	DCL	CR	QR	SZE
Mean	3.7098	20.0358	65.8699	37.9352	1.1571	0.8194	17.6009
Maximum	42.5000	1293.1010	3886.3710	769.9610	2.8808	2.2017	22.3965
Minimum	-2.5100	-109.2188	-147.7980	-109.0000	0.0740	0.0517	14.2666
Std. Dev.	6.9613	138.1748	407.1527	117.5940	0.5640	0.4737	1.5758
Skewness	3.2339	8.1914	8.4014	4.1441	0.7971	0.8021	-0.1930
Kurtosis	14.9482	73.5214	77.9106	22.1193	3.54162	3.4023	2.7768
Observations	102	102	102	102	102	102	102

Source: Authors' computation, 2019

Correlation

The correlation matrix of the variables is shown in Table 3. The degree of operating leverage, current ratio and quick ratio are negatively associated with EPS while the degree of financial leverage, combined leverage and firm size are positively signed with EPS. This implies that increase in DFL, DCL and firm size translate to higher earning while increase in degree of operating leverage and the two surrogates for liquidity lead to firms' profit reduction.

Table 3. Correlation Matrix

Variables	EPS	DOL	DFL	DCL	CR	QR	SZE
EPS	1.000						
DOL	-0.100	1.000					
DFL	0.154	-0.024	1.000				
DCL	0.378	0.212	0.014	1.000			
CR	-0.167	0.057	0.036	-0.215	1.000		
QR	-0.026	0.062	0.089	-0.185	0.830	1.000	
LSIZE	0.396	0.009	0.111	0.152	-0.203	0.007	1.000

Source: Authors computation, 2019.

Firm size was also found to be positively related to earnings per share, implying that larger firms are attracting higher profits.

Multicollinearity Test

Variance Inflation Factor (VIF) method was adopted in testing for the existence of multicollinearity between independent variables. The major advantage of VIF, according to Gujarati and Sangeetha (2008) is that it has the ability to filter from the model the variable(s) that may distort the regression result. Table 4 presents the multicollinearity test result. The acceptable maximum VIF value of any explanatory variable according to Gujarati (2003), Rumsey (2007), Gujarati and Porter (2009) and Wooldridge (2009) is 10 as any figure above this means the existence of multicollineraity which can distort the inferences to be made from the analysis.

As shown in Table 4, none of the independent variables has VIF of 10 and above. This confirms abscence of multicollinearity issue among explanatory variables.

Table 4. Collinearity Test Result

Variable	VIF	1/VIF
DOL	1.048	.954
DFL	1.001	.999
DCL	1.048	.954
CR	1.243	.945
QR	1.056	.934
Average	**1.079**	**.959**

Source: Authors' computation, 2019

Regression Results

Regression results using pooled Ordinary Least Squares (OLS) technique for the model is presented in Table 5.

The F-statistic for the model is 7.1109 and is significant at 1% level (prob value = 0.000). It depicts that the fitness of the model. Durbin-Watson value is 1.104, and is within the acceptable threshold of 1 to 3 (Gujarati, 2003, Asaeed, 2005 and Gujarati and Porter, 2009), indicates that the model does not suffer from problem of serial autocorrelation. Adjusted R^2 is 0.2683, suggesting that 26.8% of the variation in profitability (EPS) can only be explained by the liquidity and leverage proxies used in the study, while 73.2% is due to other factors that are exogenous to the model.

Table 5. Pooled OLS Results

Variables	Coefficient	t-stat	Prob
C	-19.5577	-2.5641**	0.0119
DOL	-0.0090	-2.0181**	0.0464
DFL	0.0017	1.1758	0.2427
DCL	0.0217	4.0347***	0.0001
CR	-2.2529	-1.0890	0.2789
QR	2.7852	1.1665	0.2464
SZE	1.2973	3.1325***	0.0023
Adj. R^2	0.2683		
F – statistic	7.1109***		
Prob. (F – statistic)	0.0000		
Durbin – Watson	1.1043		
Observations	102		

*, **, *** indicate significant at 10%, 5% and 1% level, respectively
Source: Researchers' computation, 2019

Discussions of Findings

From the analysis in Table 5, the OLS regression result indicates that DOL has an inverse effect on profitability (EPS) at 5% level. Thus, the higher the degree of operating leverage the lower the profit. This finding is in line with a priori expectation of the study. The implication of the finding is that as companies incur more fixed cost, profitability is negatively affected. Null hypothesis 1 is therefore rejected. The degree of operating leverage has significant influence on profitability. The result of the finding is in support of earlier studies of Raheel and Shah (2015) and Onofrei, *et al*., (2015). However, in contrary to the study's findings, Patel (2014) reported that leverage has a direct but insignificant effect on EPS.

Degree of financial leverage exhibits a direct and insignificant association on EPS. This suggests that high debt in the overall capital structure of a company exerts positive influence on profitability which may be attributed to the tax shield, low cost of issuing debt capital and convenience of raising debt as opposed to equity. Although the positive coefficient is in alignment with *a priori* expectation but it is insignificant. This finding is consistent with prior studies, including Raheel and Shah (2015), Moghaddam and Abbaspour (2017) and Nwanna and Ivie (2017). However, Ahmad et al., (2015) reported that financial leverage has a statistically significant inverse impact on profitability. Null hypothesis 2 is hereby failed to be rejected.

The finding regarding degree of combined leverage as one of the surrogates for leverage reveals that DCL exerts significant direct effect on profitability (EPS). This outcome is in conformity with *a priori* signal of the study. The outcome suggests that the degree of financial leverage is an important driver of profitability in Nigerian consumer goods firms. However, Raheel and Shah (2015) in their study reported that DCL has no significant relationship with EPS. Although, this might be a manifestation of the sector and / or economy involved. Null hypothesis 3 is hereby rejected.

Contrary to the study's expectation, current ratio as one of the proxies for liquidity, was found to exert indirect and insignificant effect on EPS. Arising from this, the null hypothesis 4 is failed to be rejected. Perhaps, this might be an indication of the fact that as firms become liquid, it may take a toll on their profitability especially where such is not judiciously allocated and prioritised. This finding can be justified on the ground that most Nigerian consumer goods companies sampled by this study are overstocked which increases their current assets and so also current ratio. Thus, as more inventories are stocked, profitability is negatively affected because unsold inventories do not earn returns. Furthermore, as companies over invest on inventory, it may affect their cash position thereby making it difficult for them to finance daily operations and meet up with short term obligations. This eventually alters operations and drastically reduces profitability. Nabeel and Hussain (2017) and Ahmad (2016) have confirmed the result of our findings.

Quick ratio shows positive but no significant effect on profitability. This is incomsistent with the study's *a priori* signal. This finding can be justified on the ground that inventory which is consider to earn no return if not sold is deducted from current ratio before being divided by current liability and as such, companies are expected to keep more of receivables, income received in arrears, prepaid expenses and cash. These are considered more liquid than inventory and as such they can easily be released to improve liquidity position performance and ultimately contribute to successful operation with attendant effect on increased profitability. The result of this finding is in conformity with earlier studies of Nabeel and Hussain (2017) and Ahmad (2016) carried out in the banking industry but produce the same results with ours. Arising from this, the null hypothesis 5 is hereby failed to be rejected.

For the control variable, the effect of size was found to be positive but insignificant. The outcome is supported by Bjarni (2007), Kolapo, Ayeni and Oke (2012), Samad (2015) and Kajola, Adedeji, Olabisi and Babatolu (2018). This finding suggests that most Nigerian consumer goods firms do not take judicious use of their assets (in totality) which ordinarily have the tendency of boosting the profitability if put into proper use.

5. Conclusion and recommendations

The study investigated the effect of leverage and liquidity on profitability in 17 consumer goods companies in Nigeria from 2012 to 2017. Using pooled Ordinary Least Squares (OLS) technique as analytical tool the study's findings revealed that leverage has significant effect on profitability while liquidity did not. Specifically, it was discovered that degree of operating leverage has an indirect and significant effect on profitability; degree of financial leverage exerted an insignificant direct effect on profitability; while degree of combined leverage produced significant and positive effect on profitability. Current ratio indicated a negative and insignificant effect on profitability while quick ratio showed an insignificant positive effect on profitability. The attributed low cost of issuing debt as against equity is one of the issues which can make debt financing to exert a significant positive effect on profitability.

Consistent with the findings of this study, it is recommended that for companies to achieve profitability it will require taking advantage of debts' tax shield from the interest in their financial structure and adoption of robust liquidity management framework such as effective monitoring and controlling inventory level and investment in short-term securities (treasury bills and certificates) whenever excess liquidity arises.

In an attempt to improve on the robustness of this study, future researches can be conducted using more sample size and higher study time frame. Similar studies can also be replicated in other sectors of the economy.

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APPENDIX
List of Sample Firms

S/N	Name of firm
1	Nigerian Breweries Plc
2	Guiness Nigeria Plc
3	7up Bottling Company Plc
4	Nigeria Enamelware Plc
5	Flour Mills of Nigeria Plc
6	Vitafoam Nigeria Plc
7	PZ Cussons Nigeria Plc
8	NASCON Plc
9	Honeywell Flour Mills Plc
10	Dangote Sugar Plc
11	Dangote Flour Mills
12	Cadbury Nigeria Plc
13	Unilver Nigeria Plc
14	Nestle Nigeria Plc
15	Northern Nigeria Flour Mills Plc
16	Champion Brewery Plc
17	MC Nicos Nigeria Plc

Source: Nigerian Stock Exchange Fact Book.

CREATION AND COMMUNICATION OF THE BRAND OF AN EDUCATIONAL INSTITUTION

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Abstract: *The current national context of the last 10 years has caused the Romanian education system to face a huge problem related to the number of graduates (of both types of secondary education). Adding to this context, the international one (in which, especially with the help of the Erasmus+ program) where more and more young people choose to leave Romania, the Romanian educational institutions must become more and more competitive and try to attract as many candidates as possible. This article aims to highlight the increasing role played by educational marketing, more precisely by the branding of educational institutions and its communication.*

Keywords: *secondary education, educational marketing, branding an educational institution, online communication of a brand.*
JEL Classification: *I20, I25, I29, M31.*

1. Introduction

Starting with the academic year 2010-2011 when the video surveillance system of the exams was implemented both for the National Evaluation test (for the completion of the lower secondary studies) and in the case of the baccalaureate examination, the number of graduates was reduced to about half, so that at present we are witnessing a paradigm of both secondary and university education, namely: if 10 years ago there was an extremely high competition in terms of admission to educational institutions, today the vast majority of them must compete between them so that they wont face extinction, due to the low number of available students that can compete. Thus, educational marketing is of particular importance, but the literature does not offer a coherent and unitary approach to this concept. The present paper aims first of all to review the specialized literature on the concepts of educational marketing and especially those regarding the branding policy of the educational „product" but also that of its communication.

2. Literature review

As mentioned earlier, when it comes to educational marketing, but especially educational branding, there is no unilateral approach to explaining this concept. This is precisely why this article starts from identifying a conceptual basis for marketing, branding and communication in the online environment, in particularry based on Philip Kotler's theories, and then explaining the concepts of educational branding as part of educational marketing, which is also part of social marketing. While some authors such as W. Curtis, R. Abratt and W. Minor speak only of organizational branding in higher education, other authors like C. Chapleo, although they deal mainly with the same subject (academic branding), make numerous references to secondary education and its characteristics.

3. Conceptual basis for branding and communication in the online environment.

Marketing is a complex of economic activities (product design, price fixing, promotion and distribution), which aims to orient the flow of goods and services from producers / distributors to consumers or users.

Trademarks (brands) are made by all types of organizations and take many forms. The brand is defined as: "a distinct identity that differentiates a promise of relevant, sustainable and credible value associated with a product, service or organization and indicates the source of that promise" (Kotler, 1995).

The Internet, through its unique characteristics, offers new ways of interacting with consumers, organizations and the wider space of the electronic market. It facilitates the dialogue between clients who are different targets, who present different types of behavior and who consider different benefits. For this, marketing decisions must be based on the knowledge of the processes and influences that dictate the buying habits of consumers, as well as organizations. This may involve collecting data on general needs, motives, attitudes and other ways of stimulating and shape behavior, or different variables such as time, which may determine the choices made (Kotler and Amstrong, 2008).

Of course, when talking about the behavior of the users in the online environment the previous concepts must be correlated with two key aspects of the online behavior that can be monitored and which help to evaluate the behavior of the customers:

• Explicit behavior is based on data provided by the user. This includes items such as a user profile, if registration data or membership status has been requested to access the website or make the purchase. An action recorded on a site, such as signing up for an e-mail or sending an order, will also be included.

• The behavior involved which is based on data extracted from the observation of the actions of a user, as he interacts with a website.

Understanding the consumer's decision to buy is a process that needs to be constantly upgraded and that is when a marketing strategy is adopted. If it starts from a simple understanding of a consumer need, it must be taken further and thought of from three essential perspectives in the online environment (Kotler and Amstrong, 2008):

- Brand awarnesss - given by the brand awareness and the whole branding process itself;
- Quantitative evaluation of information;
- Permanent improvement of the online shopping experience, as well as of the relationships with customers in the online environment.

4. The particularities of the university brand / education system

Being a part of social marketing, educational marketing aims to support the reform process in the field of education by increasing the degree of literacy, improving educational institutions and the conditions under which education is carried out (Avram, 2011).

The desire to bring branding accents to an institution first appears in the academic environment in the context of the economic crisis, which has favored the reduction of the number of candidates / students, the abandonment of studies during the academic years due to the impossibility of paying the tuition fees and a low interest for academic area. Thus, the highlighting of the quality of the study and research programs, the ways of teaching and interacting with the students, as well as a well-defined image of a higher education institution through branding techniques, based on the mission, vision and values of the respective educational institution are considered to be a good solution for revitalizing the academic area.

Therefore, "the brand image of a university plays a crucial role in the attitude towards this institution and towards the sector as a whole". Studies conducted on this topic, quite a few in number, relevant but well documented on the subject, say that "every university needs a brand and an image that can be trusted and that will differentiate it from the others" (Chapleo, 2011).

The importance of shaping an image and a brand structure is actually the way in which that institution will be perceived by potential candidates, their parents and generally by the national and international academic environment.

A distinct image will determine the future student to want to apply to that university and be part of a certain academic environment.

Firstly the transposition of the branding components from the commercial to the university environment might seem inappropriate. However, the image of the universities that chose to position themselves in the academic environment through branding techniques is appreciated, and in the literature it is mentioned that ”it is necessary for each university to know what makes it capable of developing more connections. good with all categories of audiences and with the community” (Chapleo, 2011).

If a university offers very good academic programs, efficiently integrated into the labor market and completes the academic activity with a useful research both to the academic environment, the community from which it originates, and also for the benefit of the international research and development community, then that university already has the necessary basis for developing a brand identity. This will latter highlight that all these programs and will place them favourably in the minds of potential candidates, who may be students, teachers or researchers. But these apply not only for the academic environment, but also for the whole educational system as well, with all of its institutions.

In the institutional environment, such as the university one, branding has begun to find its place in recent years, the educational environment being regarded as a ”quasi-commercial industry”. The empirical studies in the field of marketing speak about the importance of marketing communication for universities, but also about the importance of promoting in the online environment in building a brand for a university. A university brand is based on quality services and programs, a close emotional connection with students and a unique set of communication values for the services offered. The willingness of universities to use branding tactics and techniques is not random. This phenomenon has begun to increase in the context of globalization and student mobility.

It is natural that any educational institution that offers valuable educational programs wants to educate also students from other countries as well. A good management strategy based on branding techniques will facilitate attracting of students, both from the home country and from international level. As a result, ”higher education institutions have started marketing activities to position themselves on the world market, analyzing their strengths and weaknesses and identifying their unique selling points”. Many authors believe that students give first importance to the university as a whole, when they want to choose the institution to which they will study, and only then will they choose from its educational programs. We can translate the same principle when it comes to the Romanian secondary educational system, where educational institutions from urban areas are likely to be preferred by children, and where educational institutions from rural areas are on the verge of extinction (Csintalan, 2014).

Some authors believe that universities, and other educational institutions, unlike all other types of companies that produce goods and services, have a higher potential for brand creation and management. Based on a unique identity, properly communicated, they are able to develop much stronger feelings of connection between the services offered (educational programs) and clients / students (Maringe and Gibbs, 2009).

The feeling of institutional belonging of the graduates is given by the image transfer that is made between the educational institution and its graduate. The image of the institution itself can represent an excellent business card for a graduate of a university well placed in international ratings. Moreover, in the case of universities, the image of the institution, projected both through the existing means of communication and through the students, is important especially for external clients such as parents, friends, industry, etc., which have an influence on the decision. of choice of students.

Therefore, the image is a top tool for strengthening a university brand. As universities are complex institutions, which sum up a multitude of fields of activity addressed in the programs they offer and which come into contact with many categories of individuals, coming from different backgrounds and cultures, they must establish very clearly what their directions of action are, and what way they want to be perceived by all the categories of public they come in contact with (possible candidates, current students, parents, researchers, teachers, auxiliary staff, etc.).

Branding, as a strategy, does exactly that, establishes which will be the communicated image about the university, emphasizes its reputation, establishes the directions of approaching its relation with its public and clarifies the position that the university has in the competitive structure with the other higher education institutions.

If the success of commercial brands requires three major components– “an efficient product, a distinct identity and added value” - then the success of a educational brand should have the same elements. Universities in the United Kingdom, for example, understood this very early and initiated such programs. Thus, in the United Kingdom, it was the government that considered necessary to grant funds so that universities across the country develop their own institutional rebranding, precisely because it “established a clear and competitive identity for British universities, in order to attract more international students” and to differentiate English higher education institutions from their main competitors in the US and Australia (Maringe and Gibbs, 2009).

However, another part of the literature argues that for an educational brand many more components are needed to be implemented, due to the fact that these institutions are way more “inherently complex than conventional the ones that require brand management techniques and that the concepts regarding branding of an educational institution are similar to ones regarding companies in this market, being borrowed from the business sector, but not concepts regarding them must be adapted” (Maringe and Gibbs, 2009).

The complexity of education institutions leads to a difficult perception of them among potential clients who are not familiar with elements such as teaching degrees, research and researchers, new academic programs, international relations and with the business environment, etc., fact for which “branding can simplify this complexity and bring attention and loyalty to the organization”. In all this multitude of institutional aspects, the identification of those unique values of the institution that position it differently in the minds of consumers is quite difficult to materialize. Even in business situations, “identifying the elements that make a brand work is misleading, because there are no two brands that work the same” (Enache, 2013).

This is why branding of educational institutions tends to stand as a "proof of how an institution performs in its activity to meet the needs of customers" (Enache, 2013). Elements that could differentiate one educational institution from another are: the productivity of the research activity of the faculties, the students' grades, the admission / selection criteria, the starting salary of a graduate and finding jobs, the involvement of the students in curricular and extra-curricular activities, the methods of administration of the institution, etc.

What we need to keep in mind is that the branding of the educational institutions is “a manifestation of the characteristics of the institution that differentiates it from others, reflects its ability to meet the needs of students, builds confidence in its ability to exhibit a certain type and level of education and to help potential recruits make wise selection decisions” (Suciu, 2000).

5. Brand communication in education

The role of promotional communication is to facilitate direct or indirect exchanges, by informing individuals, groups or organizations and by influencing them, in order to determine them to use certain services, to purchase the products of the educational institutions or to support their activity. The wider purpose of promotion is to maintain a positive relationship between educational institutions and various groups in the external or internal marketing environment. Educational institutions must carefully plan, implement and coordinate the promotional sub-mix, in order to maximize the expected results.

The composition of the promotional communication sub-mix of an educational institution is influenced by several factors:

- The nature of the offered product. The product of the educational institution is, most of the times, an immaterial element (an idea, behaviour or a service) and in very few cases something material. This implies the creation of a specific message, as a way of presenting the product. In this context, the educational activity of the educational institution involves more imaginative efforts than are usually necessary for economic organizations.

- The particularities of the market. Educational institutions should address, at the same time, both members of the target groups targeted (students, their parents, employees eager to hone their knowledge, employers, etc.) as well as potential subscribers. In the direction of the target groups, all communication methods are successfully used, with an emphasis on advertising and public relations. Public relations and personal or personalized contacts are the most widely used ways of promoting subscribers.

- Promotional budget. The promotional sub-mix depends fundamentally on the size of the budget allocated to these activities. The lack of money - more often in the social field than in the economic one - can cause the educational institution to use less expensive but less efficient methods of promotion. In addition, the use of overly commercialized media (techniques for promoting sales or advertising campaigns too intense) could be at odds with the expectations of the target groups regarding the sobriety of the educational environment.

In contrast, the Internet is the main advertising medium, both due to the low costs and due to the suitability of the requirements of the target groups.

By making a comparison between what happens in the case of businesses and what happens in the case of educational institutions, we can formulate some particular aspects of the use of promotional communication in educational marketing:

- the educational institutions place a greater emphasis, in comparison with the companies, on the personalized relations than on the mass communication;
- the educational institutions use, in comparison with the companies, less expensive forms of communication;
- educational institutions avoid communication means with a too obvious commercial character.

In the case of the educational institutions, public relations are used to a large extent, cultivating a favourable attitude among those categories of the population that can support or influence them favourably, and help the activity of the organization: increase the number of subscribers, mass media interest etc.

An important place is also being occupied by the free publicity that these organizations benefit from, due both to the mass media interest for the education problems, as well as to the public relations actions directed to the media representatives, and also the social media platforms.

In contrast, certain classic promotional formulas are quite rarely present in the activity of these organizations, the motivation being linked not only to the predominantly intangible character of the activity carried out by them, but also to the desire to detach from events of a too pronounced commercial character, which could have negative consequences on the image.

Similarly, classic advertising is not widely used, especially because of the high costs, but also because of its association with the commercial field.

In addition to the „classic" techniques of promotional communication, educational institutions may resort to a number of less used means by businesses, such as sending messages through artistic works (pleading for certain educational programs in television series). successful, for example) or by „licensing" the image (granting permission for companies to come and use the name of the educational institution in their promotional communication).

6. Conclusions

At present, the high competitiveness in the educational market involves the revision of the way in which the educational institutions choose to understand marketing. If in the past the concepts regarding the promotion of the institutional brand in education were familiar only to the higher education institutions, at present, due to the substantial changes in the number of lower secondary education graduates, as well as due to the increase of the number of private secondary education institutions, there are sufficient alternatives for students so that educational branding becomes a mandatory requirement for any educational institution.

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SPECIFIC ACHIEVEMENT OF REGIONAL DEVELOPMENT POLICY IN THE REPUBLIC OF MOLDOVA

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Abstract: *This article describes the specific achievement of regional development policy in the Republic of Moldova. The implementation of regional development policies in the Republic of Moldova is a relatively new field. Since the 1990s, under the aegis of the ministries responsible for economic policies, public policies have been implemented aimed at the balanced development of the country's regions, but only at the end of 2009, the regional development process was stimulated by institutionalizing the instruments for implementing the regional development objectives.*

Keywords: *regional development in the Republic of Moldova, regional development policy, regional development council, regional development agency.*
JEL Classification: *O1, O2, R1.*

1. Introduction

Regional development policy has become one of the most important and most complex policies of the European Union because its objective of reducing the existing economic and social disparities between the various regions of the member-states, is that the European Union acts on significant areas for development, such as economic growth and small and medium enterprises sector, transports, agriculture, urban development, environmental protection, employment and training, education.

In the Republic of Moldova, the implementation of regional development policies is a relatively new field. Since the 1990s, under the aegis of the ministries responsible for economic policies, public policies have been implemented aimed at the balanced development of the country's regions.

2. Specific achievement of regional development policy in the Republic of Moldova

In the Republic of Moldova, the regional development became more important with the adoption of Law no. 438-XVI from December 28, 2006, defining the functional development regions on the Republic of Moldova territory, the way of interregional cooperation, the institutional framework, the specific instruments for the regional development policy and the means necessary for the creation and functioning of the development regions.

Only at the end of 2009, the regional development process was stimulated by the institutionalization of the instruments for implementation of the regional development objectives.

At the regional level, the institutional framework for implementation of the regional development policy consists of: North, Central and South RDC (Regional Development Council), Gagauzia TAU (Administrative Territorial Unit), as well as North, Center and South RDA (Regional Development Agency), Gagauzia TAU, Chisinau and Transnistria RDA. The creation of a department empowered exclusively to coordinate regional development within the Ministry of Agriculture, Regional Development and Environment and then of the Central, North and South Regional Development Agencies located in Ialoveni, Balti and Cimislia, that contributed to the intensification of the regional development policy implementation.

In turn, the Regional Development Councils (RDC) represents regional deliberative structures without legal personality, established to develop, coordinate and monitor regional development policy on Development Region level, consisting of districts representatives in the development region.

Each RDC has a different number of members, being composed of the presidents of the component districts and one representative of the mayors associations, civil society and private sector in each district and municipality of the region. The list with the nominal component of the Regional Council is made public by the Ministry of Agriculture, Regional Development and Environment after the completion of the selection procedure of members. In its activity, the Regional Council is governed by the Constitution and the laws of the Republic of Moldova, the Parliament decisions, the decrees of President of the Republic of Moldova, the normative acts of the Government and of the Ministry of Agriculture, Regional Development and Environment, the Framework Regulation on its functioning and other normative acts. The Regional Council is responsible for general development in the region and for the approval of the Regional Development Strategy and the Action Plan. The Regional Council is formed on the basis of the parity principle between representatives of public administration authorities on the one hand and representatives of the private sector and civil society on the other hand (Framework Regulation of the Regional Development Agency, 2008). The RDC consists of representatives of the local public administration authorities, appointed by office, district presidents, mayors of the respective development regions, delegated by the mayors' association, representatives of the private sector and civil society, selected according to the procedure established by the Ministry of Agriculture, Regional Development and Environment. The structure and nominal component of the RDC will ensure the representation of the private sector and civil society in each district of the respective development region.

Within the RDC, a non-legal structure is created, with a consultative role for RDC at the Development Region level, aiming at multidimensional approach and the development of RDC benchmarks and recommendations to ensure sustainable development of the sector, including effective use and attraction of new financial and human resources under the name of the Sector Regional Commission of each RDC, based on a number of tasks such as the analysis and distribution of information and data on the dynamics of the sector development of local and regional territories, as well as the existing inequalities between them, the vision of policy documents in the context of territory-use planning and development, the consolidation of a forum within local and regional authorities to examine and share experiences that help to standardize observation and analysis methods at regional level, as well as adjusting the interventions identified in the national policies at regional level and encouraging the development of innovations and analytical solutions by identifying the development needs for regional actors' capacity and by identifying the resources for organizing study programs and research that would contribute to the development of conceptual frameworks and effective tools in this respect. SRC (Sector Regional Commission) is created at the initiative and approved by RDC decision in its activity, SRC is governed by the Regulation of organization and functioning, approved by RDC decision (Framework Regulation of the Regional Development Agency, 2008).

The implementation of the regional development policy in the Republic of Moldova is based on a complex legislative framework consisting of:

- *Provisions of international treaties to which the Republic of Moldova is a party*.

On June 27, 2014, the Association Agreement between the European Union and the Republic of Moldova was signed in Brussels. During the official negotiations on its signing it was proposed to include the field of regional development in the "Sector Cooperation" section. The Parties agreed on cooperation in the field of regional development, aiming at the sustainable economic development of the entire territory of the Republic of Moldova by diminishing the economic development differences between the localities;

- *Special law in the field.* Law no. 438-XVI from December 28, 2006 on regional development in the Republic of Moldova, as amended, defines the functional development regions on the territory of the Republic of Moldova, the institutional framework, the specific instruments for the regional development policy, the means necessary for the creation and functioning of the development regions, the way of interregional cooperation, the way to implement and monitor the implementation of regional development programs and projects (Law no. 438-XVI from 2006 on regional development in the Republic of Moldova);
- *Secondary legislation***.** The Government Decision no. 127 from February 8, 2008 on the measures for the implementation of Law no. 438-XVI from December 28, 2006 on regional development in the Republic of Moldova includes the Regulation of the National Coordination Council for Regional Development, the Regional Development Agency Framework Regulation, the Regional Development Council Framework Regulation, the Regulation for the formation and use of the National Fund for Regional Development, defining all institutional and procedural aspects of legal and administrative nature in the field. At this level are included the normative acts approving the national strategies of regional development (for the years 2010-2012 and 2013-2015), and the Single programming document (Framework Regulation of the Regional Development Agency);
- *Tertiary regulatory normative.* The Operational Manual of the National Fund for Regional Development, which provides mechanisms for accessing resources from this fund; operational manuals of the regional development agency, user instructions for participation in calls for project proposals; regional development strategy; regional operational plan. Also, for the procedures description of implementation of the regional development projects, the Commission Regulation for the project proposals evaluation, the Applicant's Guide, the Communication Guide and other regulatory documents were approved (Law no. 438-XVI from 2006 on regional development in the Republic of Moldova).

According to the opinion expressed in the studies of achieved legal expertise, including by the international experts, the legislative and normative framework in force is rich enough, practically regulates all normative and procedural aspects and largely corresponds to European norms and allows the achievement of regional development policy objectives (Munteanu, 2012, p.36).

At the same time, there are several gaps that have been several times approached over the years, but have not yet been removed. Thus, according to the same legal expertise studies, in the legislative and normative framework the following shortcomings persist (Munteanu, 2012, p.57):

a) there are no provisions governing the way of inter-ministerial management of the process;

b) the responsibilities and attributions of the local public administration for involvement in the regional development process are not regulated;

c) legal inadequacies persist regarding the development and implementation periods of this Strategy (3 years), the regional development strategy (7 years), the regional operational plan (3 years), the single programming document (3 years);

d) there are no rules on the ownership of the patrimony created by the implementation of the regional development policy and the management of this patrimony;

e) there are no legal provisions that would regulate the co-financing of the regional development programs and projects included in the Single programming document (from the financial sources of the National Fund for Regional Development and other national and foreign sources);

f) there are no legal provisions that would regulate the application of an integrated control and evaluation information system for the achievement of an efficient inter-ministerial management of the regional development policy;

g) the integration provisions of territorial planning in the regional development policy are incomplete, the criteria for setting up the regions are not clearly defined and the requirements of the common nomenclature of the statistical territorial units regarding the constitution of the development regions are not respected.

For these reasons, the improvement of the legislative and normative framework in the field of regional development remains one of the important objectives of the strategic planning documents.

The Ministry of Agriculture, Regional Development and Environment is the regional policy implementation and management authority, the status of this institution being recognized and strengthened by increasing institutional capacity and increasing the capacity for financing projects with regional impact. At present, the Ministry of Agriculture, Regional Development and Environment has become an important institution in the process of implementing regional policy and is responsible for coordinating infrastructure investments. However, this has given it the status of a sector minister concerned with infrastructure projects and certain public services (water, sewerage, sanitation). Until now, politically it is not aware that regional development is a cross-sector area and requires the synergy of several sectors (Law no. 239 from13.10.2016 on the approval of the National Strategy of Regional Development for years 2013-2025).

To become an efficient institution in this process, the Ministry of Agriculture, Regional Development and Environment needs to focus its efforts on the dimension of policy development and coordination with other ministries and government agencies, as well as submit them for approval to the National Coordination Council of Regional Development. Currently, several ministries and agencies are involved in the infrastructure rehabilitation process but their actions are not coordinated and do not contribute to achieving the major sustainable economic growth target of the regions by attracting investment. At regional development level, regional development councils are set up and operate. These structures are established on parity principles between the representatives of the local public authorities of both levels, on the one hand, and the representatives of the private and associative sector, on the other. Regional development councils have the status of decision-making bodies and ensure liaison between local public administration authorities and the central authority in order to have a good representation of regional priorities in the national regional development planning framework.

The regional development agencies are set up at regional level. The Regional Development Agency (RDA) is a non-commercial public institution with financial autonomy subordinated to the Ministry of Agriculture, Regional Development and Environment and is established to ensure the operational process of the Regional development strategy implementation and achievement. The agency is a legal person, has an autonomous balance sheet, bank and treasury accounts, State Emblem stamp, with its name in the state language. The Agency operates on the basis of the National Fund for Regional Development, donations and grants (from international donor organizations or other private and public entities) and other sources that do not contravene the legislation. The Agency operates in collaboration with ministries, other central administrative authorities and local public administration authorities, development partners, civil society, economic agents, irrespective of the type of ownership and form of organization in the Republic of Moldova and abroad. In its activity, the Agency is guided by the Constitution and the laws of the Republic of Moldova, the decrees of the President of the Republic of Moldova, the Government ordinances, decisions and provisions, as well as the present Regulations on the RDA functioning (Framework Regulation of the Regional Development Agency, 2008). Executive structures, which, from a decision-making point of view, have a limited degree of independence, their role being to implement regional development strategies. In the period 2010-2015, several actions were taken to strengthen the institutional capacities of the regional development agency. The external development partners have financially supported the creation and consolidation of regional development agencies by endowing them with everything needed for the smooth running of the business. Based on the provisions of the Regional Development Agency's Framework Regulation, for each regional development agency, internal regulations and operational manuals have been developed and approved to guide the staff of the regional development agency on the procedures for performing functions, tasks and empowerments, staff rules are setting up and the way they should fulfill their obligations; establish the regional development planning and programming documents, the way of financing and the management of the regional development programs and projects (Framework Regulation of the Regional Development Agency, 2008).

The overall environment and operating conditions of regional development agencies are, overall, sufficient. At the same time, there are certain shortcomings, the removal of which could give new impetus to the regional development process. These shortcomings refer to the undefined status of regional development agencies: subordinate structures Ministry of Agriculture, Regional Development and Environment or institutions with functional and financial autonomy. At the same time, the role of the regional development agency in the process of attracting external financial resources to regional development projects should be examined (Law no. 438-XVI from 2006 on regional development in the Republic of Moldova).

Under the existing institutional framework and funding mechanism, the regional development agencies play the role of main institutions at the regional level, dealing with both the development of strategies, programs and, sometimes, projects, as well as their implementation and monitoring in accordance with the decisions and directives approved within the regional development councils. Also, the subordination relationship of the regional development agencies to the Ministry of Agriculture, Regional Development and Environment limits both the motivation and the capacity of these agencies to engage in attracting the resources of external donors, their role being practically negligible in this respect.

For these reasons, the status, responsibilities, duties and tasks of regional development agencies should be reviewed to give them greater flexibility and capacity to engage in the process of regional development and access to different resources for co-financing programs and projects implemented in the regions.

3. Conclusions

In the Republic of Moldova the existing institutional framework in the field of regional development is sufficient and operational, as well as the administrative capacity is constantly developing. At the same time, certain tasks and responsibilities of the participating institutions in the formulation and implementation of the regional development policy need to be further adjusted and strengthened, taking into account the provisions of the international agreements to which the Republic of Moldova is a party, is unsatisfactory. Thus, although the regional development policy is not a priority within the National Development Strategy “Moldova 2020”, the Ministry of Agriculture, Regional Development and Environment carries out several activities in order to achieve the document, as well as to successfully carry out the planned activities at national level on sector policies, through the development of strategic planning and programming tools at regional level. With reference to other national strategic documents, the results of the evaluation studies show that although the general and specific objectives as well as the majority of the regional development policy priorities are tangential to the provisions of several national strategic documents, coordination, and synergy with these policies are largely uninsured (Tofan and Frunze, 2018, p.139).

Similarly, regional development policy is implemented by a wide range of institutions and structures, located at different levels of administration, which form the institutional framework of the regional development process. Thus, at the central level, the National Coordination Council for Regional Development and the Ministry of Agriculture, Regional Development and Environment are set up and at regional level, in four of the six regions established by the legislation, are set up and operate regional development councils and regional development agencies.

According to the results of the evaluation studies, including external evaluation, the current institutional framework of regional development in the Republic of Moldova has been established in accordance with existing practices in European countries, is in accordance with these standards and ensures a high level of coordination and implementation of regional development policy.

It is also worth mentioning that the central public authorities of the Republic of Moldova have taken concrete steps to initiate, promote and develop a new policy concept on regional development, which includes not only the economic aspect but also the multi-sector aspect specific to the member states of the European Union.

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STUDY ON THE INTEGRATION OF SUSTAINABLE DEVELOPMENT EXERCISES IN THE ACCOUNTING MODEL OF A PUBLIC INSTITUTION FOR FORESTRY DOMAIN IN THE SOUTH-MUNTENIA REGION

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Abstract: *Despite the fact that the topic of sustainable development has been dealt with in many international norms and standards, there are very few papers in accounting research that deal with the interconnection between the accounting model and sustainable development, respectively the extent to which the accounting of economic entities reflects the requirements of sustainable development. In this article we have proposed to answer the following questions: "To what extent is labor productivity influenced by integrating the requirements of sustainable development?", "How could the degradation of human capital in an institution be stopped?". In order to know the answers, I have undertaken a qualitative research on the members of the public forestry institution. Thus, we noticed the managerial team's desire for an increase in the satisfaction of our employees and we proposed an accounting model for integrating the requirements of sustainable development. At the local level, this integration can result in a competitive advantage of the institution on the local market, respectively in the improvement of the human development indicators.*

Key words: *employee, sustainable development, exigency, added value.*
JEL Classification: *M41.*

1. Introduction

In this article we have proposed to answer the following questions:

- "To what extent is labor productivity influenced by integrating the requirements of sustainable development?"
- "How could the degradation of human capital be stopped?".

In order to know the answers, I have undertaken a qualitative research on the members of the public forestry institution. I thing that the requirements of sustainable development can and should be integrated in the labor productivity. That movement will become an advantage for the entity.

we start from the premise that: the degradation of human capital can't be stopped.

One reason why this entity was selected was that the Dâmboviţa Forestry Directorate is in the rankings of the FSC-owned schools (Forest Stewardship Council) in Romania. Worldwide, the FSC-certified area is about 183 million ha, currently Romania has only the FSC system. Romsilva holds a FSC forest management certificate, "within 215 forest hills (323) subordinated to 28 forestry departments (out of 41) located in various areas of Romania, *"with a certified total area of approximately 2.32 million hectares of state-owned forest fund*[1]*".*

As an area owned in 2015, the Dâmboviţa Forestry Directorate had 55075 hectares of forest in its patrimony. The largest share is held by oak hardwoods.

Now we will know the amount of wood that is cut each year from the forests belonging to the Dâmboviţa Forestry Directorate. In 2015, the National Forest Company - Romsilva has a harvesting program of 9412 thousand cubic meters. In 2014, a volume of 9076.5 thousand cubic meters of wood was harvested from the public property fund of the state managed by the National Forest Administration - Romsilva. In other words, in 2015 it cut 335,5 cubic meters more than in 2014.

[1] For more details you can access site-ul: http://www.puterea.ro/economie/romania-are-una-din-cele-mai-mari-suprafete-de-padure-certificata-din-europa-116220.html, 30.06.2015.

The situation of the private forests in Dâmboviţa County on 30 April 2014 is detailed in Table 1, which is 3171594 hectares.

Table no.1. Areas of forest land in possession

Individuals (ha)	Associative forms of ownership (ha)	Religious / Educational Units (ha)	Administrative-territorial units (ha)
1299107	744150	148332	980005

We will continue to present the financial situation of the Dâmboviţa Forestry Directorate during 2011-2012 to verify the Romsilva Engineer's statement regarding the profitability of the institution, but also to highlight the ways in which the requirements of sustainable development are integrated into the institution's accounting. This case study was possible by analyzing the financial statements of the institution.

Although the public institution records a net loss of 19047 lei (for 2011) and 17759lei (for 2012), this does not prevent it from wanting to integrate the sustainable development requirements into the accounting model.

Sustainable development requirements that can easily be integrated into the accounting model used by Dâmbovița Forestry Directorate are as follows:

1) arranging the workplace for the comfort of the employee and diminishing the working time in order to obtain the maximum efficiency of the employee;

2) rethinking the technological process so that the environment and employees are privileged, promoting measures to prevent the degradation of the two types of capital.

2. Integration of the Sustainable Development Exigency Requirement for Employee Comfort in the Accounting Model of the Dâmbovița Forestry Directorate

An example of integrating into the accounting model of the component the cost of sustainable development of headquarters, and the layout of employees' relaxation, will be described in detail below. Silvic Dâmboviţa SRL bought flowers in the amount of 206,65lei in 2014, created banks for the place of relaxation of employees worth 500 lei, created a football field worth 2000 lei.

1) Registering flower expenses - as ancillary materials

%	=	**401** Providers	206,65
3028 Other consumables			166,66
4426 VAT deductible			39,99

and concurrently

6524.2 Expenditure on environmental work	=	**3028** Other consumables	166,66

2) Recording of expenses with banks for relaxation

345 Finished product	=	**711** Income related to the cost of product stocks	500,00

and concurrently

6524.2 Expenditure on environmental work	=	**345** Finished product	500,00

3) Recording of sports relaxation expenses

2112 Landscaping	=	**404** Providers of immobilizations	2000,00

and concurrently

6524.2	=	**2112** Landscaping	2000,00

As a result of these records in account 652 Environmental Protection Expenditures, we have the amount of 2,666.66 lei, dated (according to Table 2).

Table no. 2. Costs of arranging the workplace for the comfort of the employee in the accounting model of Dâmboviţa Forest Directorate

652 Expenditure on environmental protection		
Account symbol	**Account name**	**Amount registered (lei)**
6524.2	Expenditure on environmental work	(166,66+500+2000)=2666,66

Source: Own vision

3. Integrate the requirement of sustainable development to promote measures to prevent the degradation of human and natural capital

Next we will present the accounting operation for the registration of a qualification course offered by the Dâmboviţa Forestry Department for two of its employees. The qualification is for the Engineer specialization and cost the institution 500.00 lei, the entity considering it as a way of solidifying the relations between the employees.

1) Passing spending on studies and research into internal costs of sustainable development costs

6525.2 Expenditure on solidifying employee relationships	=	**614** Expenses with studies and research	500,00

Next we will calculate value added rates as an expression of concern to employees.

At microeconomic level, the added value highlights the level of economic power of the economic entity. In our research, we calculated the added value as that difference "between the output of the exercise (obtained by reporting the trade margin to the output of the exercise) and the consumption of goods and services supplied by third parties (intermediate consumption) for that production".

Table no. 3. Elements in the composition of value added rates

Indicator	Value for the financial year 2011	Value for the financial year 2012
Added value	13689441,00 lei	14053488,00 lei
Fiscal value	24493212,00 lei	25138763,00 lei
Gross value of intangible and tangible assets	78857911,00 lei	91720303,00 lei
Average number of employees	435	435
Staff costs	13782392,00 lei	14485935,00 lei

Source: Own processing based on data from the Income and Expenses Statement for 2012, published by Romsilva – Dâmbovița Forestry Directorate.

Knowing the information (presented in Table 3) taken from the financial statements published by the Dâmbovița Forestry Directorate, we have created Table 4 with four efficiency indicators from the prism value point.

Table no. 4. Efficiency indicators calculated on the basis of value added

Indicators	Calculation relationship	Financial exercise 2011	Financial exercise 2012
Value Added Value (integration rate)	Added value /Fiscal value x 100	55,89%	55,90%
Value added to 1000 lei gross tangible and intangible assets	Value added / Gross value of tangible and intangible assets x 1000	173,59 lei	153,22 lei
Value Added by an Employee (in lei)	Added value /Average number of employees	31470,00 lei	32307,00 lei
Value added to 1 leu personnel expenses	Value Added / Staff Expenses	0,99 lei	0,97 lei

Source: Own processing based on data from the Income and Expenses Statement for 2012, published by Romsilva - Dâmbovița Forestry Directorate

The average number of employees is 435 for each presented year. Given the value of tangible and intangible fixed assets in 2011 of 78857911 lei and 2012 of 91720303 lei, an added value of 1000 lei is observed in 2012 compared to 2011 by 20,37 lei. This is influenced by a poor policy of using recently purchased assets.

As a result of these records in account 652 Environmental Protection Expenditures we have the amount of 500 lei, broken down according to table no.5.

Table no. 5. Cost of production orientation so that the environment and employees are privileged

652 Expenditure on environmental protection		
Account symbol	**Account name**	**Amount registered (lei)**
6525.2	Expenditure on solidifying employee relationships	500,00

Source: Own vision

4. Conclusion

Although at present the Dâmboviţa Forestry Directorate does not calculate a cost of sustainable development, like many public institutions in Romania, our proposal aims to change this reasoning.

Following discussions with some of the employees of the forestry public institution in the South-Muntenia Region, we can say that there is a need for permanent care to improve the regeneration of forests, and for forestry as a constant task.

Thus, from the data analyzed in these case studies, we can state that the relativity of the cost estimate of sustainable development directly affects the level of calculation of sustainable development indicators.

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LOCAL TAXES AND FEES AS A SOURCE OF INCOME TO THE LOCAL BUDGET

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Abstract: *Public administration in counties, towns, communes is organized and functions mainly, based on the principle of local autonomy; according to the law, local autonomy means the right and the effective capacity of the local public administration authorities to solve and manage public affairs on behalf of and in the interest of the local communities they represent.The local autonomy is only administrative and financial, being exercised on the basis and within the limits provided by the law and concerns the organization, functioning, competences and attributions, as well as the management of the resources, which, according to the law, belong to the commune, the city, the municipality or the county, as the case may be. Summing up, local taxes and taxes, the main source of revenue for the local budget is based on the financial component of local autonomy.*

Keywords: *taxes, taxes, budget, financial, resources.*
JEL Clasification: *K00, K34.*

1. Introduction

Local budgets represent the most important part of local public finances illustrating the economic relations of mobilizing the financial resources necessary for the realization of social, cultural, economic, social assistance and other actions under the competence of the local public administration authorities. Local budget means an act recording the income and expenditure of local authorities for a period of one year.

2. Taxes and fees

Taxes are generally a means of levying revenue from natural or legal persons made available to the state to cover public expenditure. The payment of local taxes and taxes is compulsory, non-refundable and without a counterpart on the part of the state. Taxes are the amount paid by a natural or legal person for services rendered to him by a public institution, public service, etc.

In turn, the revised Constitution of Romania in 2003 states that "Citizens have an obligation to contribute, through taxes and fees, to public spending. The statutory system of taxation must ensure the correct setting of tax burdens. Any other benefits are forbidden, except those established by law, in exceptional circumstances. "

Local taxes and levies are set according to the principle of local autonomy and based on the provisions of the Fiscal Code, which has been drafted so that taxpayers can follow and understand their tax burden, there is the necessary information on tax principles, mechanisms and procedures and also tax payers can easily analyze the influence of their financial management decisions on their tax burden.

Local autonomy empowers local public authorities with the right, within the limits of the law, to take initiatives in all areas, except those expressly given to the competence of other public authorities.

This concept is defined in Art. 3 paragraph 1 of the European Charter of Local Self[1]-Government and in Art. 3 par. 1 of the Law no. 215/2001 stipulating that local autonomy means the right and effective capacity of the local public administration

[1] The European Charter of Local Self-Government was adopted by the Council of Europe in Strasbourg on 15 October 1985 and ratified by Romania through Law no. 199/1997, published in the Official Gazette of Romania no. 331 / 26.11.1997.

authorities to solve and manage within the law, in their own name and in the interest of the local population, an important part of the public affairs.

According to art. 4, paragraph 2 of the Charter, the local public administration authorities are recognized by law to be fully able to exercise their initiative in all areas which are not excluded from their competencies or which are not attributed to another authority.

According to the general principles of the same European normative act, the local public administration authorities have the right to sufficient own resources, freely disposed of in the exercise of their powers, the financial resources of the local public administration authorities must be proportionate to the competences provided by the Constitution; or by law, at least some of the financial resources of the local public administration authorities must come from the local taxes and duties, the level of which has the competence to set them within the legal limits.

According to these legal regulations, local autonomy is not only a principle of organization and functioning of public administration, but also a right of local public authorities, which is exercised by them in the name and interest of local communities.
This right is exercised by local and municipal councils, as well as by county councils, local public administration authorities elected by universal, equal, direct, secret and freely expressed vote, based on the list vote and the uninominal vote, as well as the independent candidacies .

Local autonomy concerns the organization, functioning, competencies and attributions, as well as the management of the resources that, according to the law, belong to the commune, city or county, as the case may be, and confer on local public administration authorities the right, within the limits of the law, to take initiatives in all fields, except those expressly granted to other public authorities[1].

Within the framework of the national economic policy, municipalities, cities, municipalities and counties have the right to their own financial resources, which the local public administration authorities establish, administer and use for the fulfillment of their competences and attributions, according to the law.

The financial resources available to the local public administration authorities must be correlated with the competencies and duties provided by the law.

The local public administration authorities administer or, as the case may be, have the financial resources as well as the public or private property of communes, towns, municipalities and counties in accordance with the principle of local autonomy.

In order to ensure local autonomy, the local public administration authorities have the right to establish and collect local taxes and fees, to draft and approve the local budgets of communes, towns, municipalities and counties, according to the law. Local autonomy is only administrative and financial.

In their turn, the taxes and duties regulated by the Fiscal Code are based on the following principles:

a) the neutrality of the fiscal measures in relation to the different categories of investors and capital, with the form of ownership, ensuring by level of taxation equal conditions for investors, Romanian and foreign capital;

b) the certainty of taxation, by the elaboration of clear legal norms, which do not lead to arbitrary interpretations, and the deadlines, modalities and payment amounts to be precisely established for each payer, namely to be able to follow and understand their tax burden, as well and be able to determine the influence of their financial management decisions on their tax burden;

[1] Art. 6 alin. (1) din Legea nr. 215/2001.

c) the fairness of taxation or fiscal equity ensures that the tax burden of each taxpayer is determined on the basis of the contributing power, respectively according to the size of its income or property;

d) Taxation efficiency provides similar levels of budget revenue from one budgetary exercise to another by maintaining tax, tax and contribution performance in all phases of the economic cycle, both in times of economic and crisis turmoil;

e) The predictability of taxation ensures the stability of taxes, taxes and mandatory contributions for a period of at least one year in which no changes can be made to increase or introduce new taxes, duties and mandatory contributions.

Local taxes and duties were initially regulated by Law no. 27/1994 modified by the Emergency Ordinance no. 64/1998 and repealed by Ordinance 36/2002. Ordinance 36/2003 was repealed by the new Tax Code Law 571/2003 modified by H.G. 44/2004, H.G. 1514/2006 and H.G. 1861/2006. These legal provisions allow local councils to determine these taxes according to the specific conditions in the territory, which since 1999 have been indexed with the inflation index.

Therefore, the deliberative authorities within the public institutions that have the capacity of principal orderer of credits can determine the level of local taxes and taxes taking into account the provisions of Law no. 227/2015 regarding the Fiscal Code Title IX "Local taxes and duties, art. 9, par. (1) of the Law 544/2001 on free access to public information, as subsequently amended and supplemented, art. 27 and art. 30 of the Law no. 273/2006 on local public finances with subsequent amendments and completions.

According to art. 7 of Law no. 52/2003, the public administration authority has the obligation to publish an announcement regarding this action on its own website, to display it at its own premises, in a publicly accessible place, in the framework of drafting draft normative acts, and to it sends it to the central or local media, as the case may be. The public administration authority will submit the draft normative acts to all persons who have submitted a request for receiving this information.

When publishing the announcement, the public administration authority will set a period of at least 10 calendar days for the draft normative acts referred to above, in order to receive in writing proposals, suggestions or opinions on the draft normative act subject to public debate.

Proposals, suggestions or opinions on the draft normative act subject to public debate shall be recorded in a register, indicating the date of receipt, the person and the contact details from which the proposal, opinion or recommendation was received.

Interested individuals or organizations who submit written proposals, suggestions or opinions on the draft legislative act subject to public debate shall specify the article or articles in the draft legal act to which they refer, mentioning the date of dispatch and contact details of the sender.

After fulfilling the provisions of Law no. 52/2003 regarding the decisional transparency in the public administration, with the subsequent amendments and completions, the draft on the establishment of the local taxes and taxes shall be submitted for approval to the Local Council in ordinary session. The logic for which the legislator has established this is that for ordinary sessions it takes 5 days from the convocation, enough time for local counselors and citizens interested in analyzing the draft decision and submitting amendments.

The decision on the establishment of local taxes and taxes is adopted by a qualified majority, with the vote of the majority of local councilors in office.

Therefore, local taxes and fees are established by decision of the local council, in compliance with the provisions of art. 489 par. (1) - (3) of the Law 227/2015 regarding the Fiscal Code: "(1) The deliberative authority of the local public administration, upon proposal of the executive authority, may set additional quotas for the local taxes and duties provided by the law, of the following criteria: economic, social, geographical, as well as local budgetary needs, except for the fees provided for in art. 494 par. (10) lit. b) and c); . (2) The additional quotas established according to par. (1) may not exceed 50% of the maximum levels set out in this Title. (3) The criteria set out in par. (1) shall be decided by the deliberative authority of the local public administration "

In art. 491 of Law no. 227/2015 regulates the indexation of local taxes and duties: "(1) In the case of any tax or any local tax, which consists of a certain amount in lei or which is determined based on a certain amount in lei, the respective amounts are indexed annually until 30 April, by local councils, taking into account the inflation rate for the previous fiscal year, communicated on the official websites of the Ministry of Public Finance and the Ministry of Regional Development and Public Administration. . (2) The amounts indexed according to par. (1) shall be approved by decision of the local council and shall be applied in the following fiscal year ... ".

According to Article 454 of the Fiscal Code, local taxes and duties are as follows:

a) Building tax and building tax;
b) land tax and land tax;
c) the tax on means of transport;
d) fee for issuing certificates, permits and authorizations;
e) the fee for using the means of advertising and advertising;
f) tax on shows;
g) special taxes;
h) other local taxes.

When determining the amount of a tax, tax, or social contribution, the tax authorities may not consider a transaction that has no economic purpose, adjusting its tax effects, or may re-shape the form of a transaction / activity to reflect the economic content of the transaction / activity.

The tax authority is in fact required to give reasons for the tax decision issued as a result of the failure to consider a transaction or, as the case may be, as a result of the re-arrangement of the form of a transaction, by indicating the relevant elements in relation to the purpose and content of the transaction consideration / reincarnation, and all the means of evidence considered for that purpose[1].

Amounts from paying local taxes and taxes are paid to the local budget, often the main source of income. Based on the collection of local taxes and fees from economic agents, as well as from the population, some of the resources for financing the expenditures provided in the budget are made.

3. Conclusions

The distribution of local taxes and taxes on income and expenditure categories and then on local budget categories, if the law does not provide, is determined by the competent authorities of each county, depending on the attributions of the local authorities of the state administration and the subordination of public institutions, as well as budgetary balancing needs.

That is why local taxes and taxes are of particular economic, financial and social importance, and they are also instruments for encouraging / discouraging economic activities. The increase in the volume of taxes is achieved by increasing the number of payers, extending the tax base, and increasing the tax rates.

[1] Article 11 of the Updated Tax Code

The collection and monitoring of local taxes and fees, special taxes and the use of income in accordance with the revenue and expenditure budgets approved by the local and county councils and Bucharest municipalities are made by the specialized department of the general directorates of finance public and the financial control of the county and Bucharest municipalities, as the case may be.

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DO WE NEED EFFICIENT MANAGEMENT TO ENSURE SUSTAINABLE DEVELOPMENT OF THE ENTERPRISE?

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Abstract: *Ethics is necessary for all, because of the threats to the nature and the future of humanity thanks to the technical progress and its often devastating potentials, if these potentials are not subjected, as possibilities of exercise, to this principle of responsibility. Therefore, sustainable development (SD) is called to manage well the strong tension that has developed rapidly between the two poles: that of moral demand, based on a return to the philosophy of morality, and that of stakeholders, which aims to extend the agency relationship to new interest groups such as local communities or even their administrations, through the partnership method. In this way they become partners and implicitly stakeholders who no longer act as a party to the conflict. They are united in their incompatibility and under these circumstances the stakeholder theory suffers from an acute lack of legitimacy in relation to the new requirements imposed by SD.*
Keywords *Sustainable development, management, efficiency*
Jel Classification*: O, O2, O3.*

In the reports presented at international conferences on environmental issues (Rio 1992, Kyoto 1997, Davos 2001, Johannesburg 2002, Coopenhaga 2009) and in many other specialized publications, Sustainable Development has emerged and appears today as the dominant representative of a new logics of economic and social development. This logic should allow for a fair balance between social aspirations, considered as new ones, and an "economic development that meets the needs of each generation, starting with the most in need, without compromising the ability of future generations to meet their own needs" (Brundtland, 1987).

The emergence of the concept of sustainable development (SD) is from the beginning the subject of some tensions regarding its objectives and content. These tensions swing between a pragmatic approach, based on stakeholders' theory and an ethical or moral approach, which highlights a principle of responsibility, largely inspired by the philosophy of Hans Jonas (1990). The analysis of these tensions, developed in the first part of this article, helps us to understand the context in which the debates and especially the controversies surrounding the concept of Sustainable Development are inscribed today (Jonas, 1990).

Natural questions do not contain about this concept:

- Is this a new logic that will result either from a better arbitration between short-term oriented concerns (largely based on economic criteria), or from a new definition of performance, extended to the economy, from social and environmental considerations?
- What are the theoretical bases to support the codification and development of the concept of SD?
- Or is SD simply a new concept and a new attempt to justify and sustain at any cost a sustainable growth or, more importantly, is it an invitation to rethink the "nature of the company"?

Between the deeply contradictory interpretations of the concept and the difficulties encountered in trying to define its dimension in terms of social involvement, the fundamental components of economic and social sustainability are hard to distinguish as widely recognized and legitimate landmarks. It seems that this is better defined today by the concept of social responsibility that has the vocation to bring a broadly accepted consensus regarding these controversies (Angelescu, 2001).

As a new formulation, and seemingly with a more widely accepted mediation potential, it is assumed that the enterprise (organization), as an economic entity that acts in the market, recognizes and assumes its responsibility, in various fields such as: accidents, pollution, social disturbances caused by managerial decisions, civic and ethical impacts of strategic decisions, etc.

This is actually a new way of the individuals behind everything that represents the organization to run away from the responsibility, invoking even its social responsibility and care for the employees, in front of any regulations and especially those of the environment protection.

Inventing the phrase Sustainable Development is often presented as the result of a complex set of multiform pressures, created by groups of actors, with different motivations. For example, the anti-globalization movements and the Non-Governmental Organizations, are imposed as an increasing presence on companies and international organizations and institutions operating in the field of the environment. Such organizations (UNEP, UNCTAD, IOM, UNDP, OECD, European Commission) are actively developing, especially after the Brundtland Report (WCED 1987), important awareness and information mechanisms between governments and institutions directly involved. (See, for example, the Development Assistance Committee, DAC, OECD. 1996).

Despite the diversity of these approaches, and the diversity of their bases of action, most of these players seem to agree that the SD phrase itself as the doctrine and obvious result of the action is in search of a new development model. This new model seems to be situated at the intersection of three fundamental principles:

1. An *economic* principle that requires the rational use of resources, in order to fulfill the desire to "maintain a reasonable standard of living" (Bansal, 123), without endangering the chances of future generations.

2. An *environmental* principle specifying that civil society must protect these resources because the peak of political decision is and will always be at the mercy of the economic peak that propelled it.

3. A *social* principle that states that all people should be treated fairly.

The very general aspect of these principles, their soft obligatory feature and the absence of a "regulatory authority", which would have been imposed unitarily by all, constantly threatens and raises questions about the intentions underlying this search for a new model of development. The negative aspects of the "old" model are only rarely mentioned (apart from the impairments to the environment by the economic growth of at any cost), and it is not clear how the principles of action in the social and especially economic field will be renewed.

Therefore, the vague character of the concept, the weakness of the debates around the principle of social equity and the lack of prescriptions, requirements or proposals for structuring clear actions, can legitimately raise the issue of the real intention to perform the concept of SD.

The word management originally comes from the Latin language, also appearing in other European countries, having many precautions when it comes to introducing new words into the vocabulary. The meaning of this word represents the position of leader, of leadership, but from what we observe its meaning and attribution as a process are much more complex.

After a while, the expression of management was also introduced into the economy, from where it became more extensive, and where it began to lay its final foundations.

Shortly, the difference between management and manager was clarified and differentiated, because management is a process that must be completed in order to give the respective company profit, and the manager is a person who is in charge of managing that company. And any company that wants to be successful in the market and to make a profit, must call or most certainly hire a good manager, to know how to organize things and the activity in the company (Sfetcu Nicolae, 2016).

Management as a definition can be framed: "Communication management represents a holistic approach to meeting the communication needs of a company with intermediaries and internal and external target groups. Target groups and intermediaries are self-reliant and interdependent with each other" (Balanică, 2003).

According to Philip W. Shay, there are four essential steps that are beneficial for the sustainable progress of the enterprise in the field of management.

• The first stage: At the beginning of the initialization of the management in the business market, certain criteria were established, among which the one to achieve maximum success with a reduced effort. It was also based on establishing a plan from the beginning trying not to deviate from it. After a while the managers gave up the norms initially imposed, and decided to bend after the situation that appeared at the moment. For a good collaboration and efficient organization, they thought that it is beneficial to rely on the relationship from superior to subordinate and vice versa.

• The second stage: With the improvement and amplification of the relations between the superior and the performer, there appears the need to have a good organization at company level.

• This stage requires a well-defined organization, because it is important to make a correct decision, without haste in the decision-making process. It is also necessary to have a good organization because, in the first stage, many decisions were neglected and could have been beneficial.

• The third stage: If in the first two stages, the managers were limited to the plan, decisions, in the third stage appears the setting of some goals, objectives, which must be achieved and finalized. It also amplifies the process of ensuring the circulation of goods and services, but also the process of decentralization.

• Fourth stage: Formation of a general framework, due to the concepts approached and set in the first three stages. Here the scientists intervene and add, after the four stages, certain definitions or useful theories and at present, for those who want to know more about management.

Due to these stages but also to other scientists, scientific management has really experienced a development based on certain principles, which makes it easier to implement the management function.

Management is able to solve different dilemmas in the management system of organizations. It is created and designed to lead and distribute the functions and duties of an efficient company, capable of bringing changes and advantages. Management also has the function to detect and act in case of problems existing at the level of a company, finding the best solutions.

Although scientific management is discussed more widely, however, many experts believe that management is an art, because in the Middle Ages many people have led multiple such actions in another form, acquiring an art character.

They used the correspondence through pigeons, knights, there was a centralized record, the craft, the blacksmith, etc. Over time, scientific theories and principles have removed the importance of these activities and everything has become as modern as possible.

Conclusions

In the case of sustainable enterprises, most authors support the need for the continuous exercise of this function, being considered vital for the development of the enterprise. Most of the time, the entrepreneur makes forecasts empirically (unless he has a specialized department - as in most companies - which makes forecasts, especially economic ones, based on specialized software). When the forecast is made exclusively by the contractor, it is limited by his level of training and experience. After all, any entrepreneur has plans for the future, at least for survival, if not for expanding the business.

It is necessary to train and educate managers about the importance of organic structures, symmetrical communication systems and fair organizational systems. If the dominant coalitions and the managers do not recognize the important roles that the three organizational contexts play in the relations with the employees, the research of such relationships would never be beneficial for the managerial practice.

The manager of sustainable development of an enterprise can capitalize on the ideal contribution of the theory of the new public management. The person in charge of sustainable development has the opportunity to assert himself not only as a specialist, but also as a true leader of the need to change the mentalities in the context of promoting the sustainable enterprise.

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SOCIO-ECONOMIC ASPECTS OF IMMIGRANTS' INTEGRATION IN ROMANIA

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***Abstract**: In the last decade, Romania has seen a positive and slightly oscillating trend in terms of immigration, being recognised as a transit country. Before 2004, the number of immigrants in Romania was relatively small, especially from the Republic of Moldova, Turkey and China. After joining the European Union, Romania enters the circuit of intra-community mobility. Immigration policy focused on the phenomenon of immigration of third-country nationals, representing around 0.3% of the total population. The integration of immigrants into Romania is the result of a dynamic ratio between the collective dimension, put into value through expectations, social norms characteristic of society as a whole, and the individual size, whereby the immigrant must meet a cumulation of normal standards in society. The reality has led to a paradigm shift in addressing immigrants' integration policies in Romania, with the centre of gravity moving from equal treatment to immigrants to ensuring equal opportunities and access to all areas (economic, social, cultural) and participation in civil and political life.*

***Key words**: migration, immigration, migration policy, Romania.*
***JEL Classification**: F22, P48.*

1. Introduction

International migration affects almost all regions of the world. Over time, migration has borne a transformation, given by the international context, becoming, from a regional phenomenon, a global phenomenon. The migration phenomenon is quantification in about 3% of the world's total population (Constantinescu, 2008, p.249). This percentage has been maintained for the last 10 years.

The phenomenon structure the contemporary world, observing multiple relationships and implications, which make this phenomenon one of major importance for both states and individuals involved. Of these implications, economic-social ones are of particular importance. Migration and migrants do not only contribute to the economic growth of countries. Migration makes it possible to contact people with different traditions, habits and beliefs. This creates the prerequisites for a continuous development of the society in which we live.

Immigration is a reality of our day, the consequence of multiple discrepancies that exist between political systems, security, demographic situation and the economy of different countries. Officially, Romania is a transit country for immigrants, namely a source for international migration. In the last decade, as a result of economic, political and social developments, Romania has seen a positive and slightly oscillating trend in terms of immigration. From this point of view, research on immigration to Romania enjoys a special interest.

2. Conceptual framework on migration and immigration

Currently, the literature defines a multitude of terms specific to the phenomenon of migration. The author Rentea Georgiana-Cristina operates with the following concepts (Rentea, 2013, pp.122-125):

- Migration is the process of displacement of the individual, involving space (in terms of boundaries that they must cross), time (period spent outside the country of origin), purpose (economic, studies, family reunification, humanitarian protection);
- The migrant is the migrating person, who moves from place to place, without necessarily establishing themselves in a specific place;

- Emigration is the process of shifting the individual, departing from his country to another country, to live and work;
- The emigrant is the person who leaves for a country to live and work; for the country of destination, he is an immigrant;
- Immigration is the process of entering individuals within the boundaries of a state, with the intention of establishing themselves for a certain time, depending on the purpose pursued;
- The immigrant is the person who comes from a non-EU country and has voluntarily chosen Romania as a country of destination for work, business, studies, family reunification;
- Third-country national (RTT) means any person who is not a national of one of the member states of the European Union;
- The refugee is the person whose country of origin is outside the European Union, has forcibly left and obtained a form of protection in Romania, following the assessment by the competent authorities of the asylum application.

According to authors Erdeli et al. (1999, p.194), migration is "the process by which people change definitively or temporarily their place of residence". International migration is also defined as taking place outside the borders of a state, being motivated by the great economic disparities between states (Erdeli et al., 1999, p. 194).

International migration theories help us better understand the causes that have been the basis of the migration process, explaining the migration of individuals from both macro and micro perspective. None of the theories can be considered complete, each with its own limitations, because "migration is too diverse and varied to be explained by a single theory" (Arango, 2000, pp.283-296).

The conceptualisation of migration has been accomplished over time by issuing theories, which are based on economic reasoning. A better understanding of the migration process can be achieved by calling on more disciplines and on a multi-level analysis (individual, group, national and international). The merit of having formulated the first set of deterministic rules on migration rests with Ernst Georg Ravenstein, who, between 1876 and 1885, tried to theorize international migration. His approach is later followed by Wilbur Zelinsky, who, in the work of "The hypothesis of The Mobility Transition" (1971), attempted to conceptualise migration as a stage development, generated by the modernisation of companies and the entry into the circuits international economic activities.

The most important researcher of the migratory phenomenon, Douglas Massey, appreciates: "International migration does not have its root in the absence of growth and economic development, but in the development itself". The author also speaks of a "migration culture", considering that the migration process brings changes in terms of social mobility and the lifestyle of immigrants.

After John Richard Hicks (1932), migration is mainly generated by the salary gap of workers from different economic spaces within the national states. Thus, migration is a redistribution of workers based on labour needs from poor in capital, but rich in labour, to capital-rich, but poor in the labour force. It relates to the importance of economic factors (from the country of origin and destination) in the triggering of the migration process.

Following the authors of Immanuel Wallerstein (1974) and Massey and Denton (1993), migration is given by globalisation and the penetration of markets beyond national borders.

Joppke (2001) defines migrants, who are citizens of the European Union, as privileged, compared to those in third countries. Migrants from third countries can benefit from indirect rights at EU level due to the quality of family member of a European Union citizen and the bilateral international treaties. In the category of foreigners, citizens of the European Union have become increasingly invisible compared to the majority population. They no longer evodo inferiority complexes (Diechl and Blohm, 2003, pp.133-162).

The different application of the European Union's legislation, depending of the category of migrants, may constitute a source of discriminatory inequalities and practices. The most affected are illegal migrants, temporary residence migrants, who, because of their purpose, are ineligible for permanent stay (seasonal workers), migrants whose right of residence has been granted for family reunification purposes (Rentea, 2013, p.89).

3. Immigrants' integration in Romanian society

Migration is a reality of our day. It is part of the daily life, requiring an analysis, an approach to the particularities of each category of migrants. It is a continuous, hard to manage and accurately measured phenomenon.

No state in the world has remained outside international migratory flows, with the quality of either country of origin, transit or destination for migrants or all three attributes simultaneously. It has been concluded that through effective management, migration and immigration can play a key role in the development and reduction of poverty, with clear advantages, which could be increased, and disadvantages, which could be minimised.

Migration should not be regarded as a negative aspect. It can contribute significantly to cultural exchange, economic development and progress of the host society, development of entrepreneurship, modernisation, remittances, diminishing unemployment, effects in the regional development plan, as can benefits to countries of origin and families of migrants. The negative effects, for host countries, are: impaired social unity, increased xenophobia, employment of indigenous people, decreased wages, imposing increased burdens on the social protection system.

Therefore, migration must be seen as a process to be managed and not as a problem that needs to be resolved. The consequences of migration to the source countries are immediate and long-term, since the highly qualified and qualified workforce is leaving, defending an imbalance in the labour market. As regards the consequences of migration on the country of destination, they manifest themselves in the long term.

Officially, Romania is recognised as a transit country for immigrants, i.e. a source country for international migration. Romania plays the role of transit country for migratory flows from the Eastern states, on their way to Western countries, with a high level of economic development. But Romania also becomes a country of destination. Romania's accession to the European Union and the tendency to increase living standards are factors of interest to migrants.

As a result of economic, political and social developments, Romania, in the last decade, has recorded a positive and slightly oscillating trend in terms of immigration. In the next period, the attractiveness of Romania will grow and transform itself into an immigration country. The posture of the country of immigration is not a negative aspect. Immigration can contribute significantly to the cultural exchange, economic development and progress of the Romanian society. It is expected to increase the number of immigrants to cover the shortage of labour and skills shortages in Romania.

The main objective of the Romanian authorities is to maximise the positive effects and limit the negative effects of immigration for our country and Romanian citizens. In this context, the Romanian authorities with powers in the field of migration undertake measures to streamline the management of immigrants ' integration. The importance of these measures is all the more so that Romania is standing at the Eastern frontier of the European Union. There is a need to have good cooperation between authorities and efficient management of human, financial and logistical resources in order to create a modern institutional and legislative framework in the field of migration and asylum.

The responsibility of the Romanian state is to establish clearly the categories of migrants that can be admitted and can be established on national territory, according to national interests, but in close correlation with the programmatic policies and documents adopted at European Union level, as well as respecting the rights of migrants. In addition, the Romanian State continues to adopt pragmatic measures to prevent and combat illegal immigration and removal from the national territory of migrants who no longer fulfil the legal conditions of residence (Stoica, 2014, p.92).

In Romania, services and assistance on the integration of immigrants are not entirely satisfactory, despite the efforts undertaken in recent years to align with international standards. The immigration integration policy in Romania involves equal treatment of immigrants, ensuring equal opportunities and access to all areas of economic, social, cultural and political life. The integration of immigrants into the Romanian society is real, and it is possible in the context of aligning national policies on immigration to the level of European policies to manage this phenomenon.

Immigrants arriving in Romania are hitting a lot of obstacles, including the unconsciousness of the Romanian language or an international language of movement, the lack of some of the citizens to communicate with and live, local customs, culture, unknown of Romanian law. Adaptation is much easier and faster when the immigrant has relations and connections with its own community (ethnic, national or religious).

In general terms, the process of integrating immigrants consists in knowing the language of the host country, access to the education system and the labour market, the possibilities of increasing professional mobility by raising the level of education and qualification equality before the law, cultural and religious freedom, respect for the laws and traditions of the country in which they live (Stoica, 2014, p.51).

The integration of immigrants into Romania is the result of a dynamic ratio between the collective dimension, put into value through expectations, social norms characteristic of society as a whole and the individual size, whereby the immigrant must meet a cumulation of normal standards in the new society (to respect the law, to have a job, to speak the language, etc.). Thus, the immigrant must voluntarily adhere to the values, beliefs shared in that collectivity, becoming similar in thought and behavior to the members of the society in which they want to live and work.

For the host society, the integration of migrants involves tolerance and openness, the agreement to receive immigrants, understanding the advantages and challenges of multicultural societies, providing unhindered access to information on the benefits integration, tolerance and intercultural dialogue, respect for and understanding of the condition, traditions and culture of immigrants, respect for the rights of immigrants.

Before 2004 in Romania, the number of immigrants was relatively small, especially from the Republic of Moldova, Turkey and China. Following accession to the European Union, Romania entered the circuit of intra-community mobility, immigration policy focusing on the phenomenon of immigration of third-country nationals.

According to General Inspectorate for Immigration, on 31 December 2016, in Romania there were 64891 foreigners from third states, with legal residence, of which: for family reunification – 27903; for studies – 14815; for work – 5611; persons with a form of protection – 2903; persons with long-term stay (with home in Romania) – 11140. Alongside Slovenia and Slovakia, Romania has the lowest percentage of immigrants in the EU, namely 0.3% of the total population.

4. Perspectives for migration and immigration

Globalization is expected to intensify international migration in the 21st century. This evolution will put its mark on the characteristics of future migrationary systems. Current international migration is the result of social disparities between different regions of the globe and the realities of labour markets in the most industrialised countries. The countries of destination of international migration are very involved in this process, providing conditions and circumstances in which international migration survives, and even flourishes.

Immigration for better economic conditions remains a constant, but it is not necessary to ignore the potential of forced immigration, which records an upward trend. People will be motivated to emigrate to protect themselves or their families or to escape from the economic downturn of the society they live in. International immigration is determined by political, social and cultural rigidity or violation of human rights, but also by the failure of the governments of the source countries to solve the social problems of their citizens.

Other factors stimulating international migration are:

- Migration tradition – the existence of political, social and economic relations between countries of origin and destination, which also include encouraging this phenomenon;
- The global expansion of the services sector – migration from developing countries to those developed will continue, as the need for skilled force in the services sector requires this;
- Subsidies granted by developed states to farmers – labour migration prepared to developed countries with high-performance agriculture;
- Massive cross-border migrations due to trends in fragmentation of some countries;
- Decreasing the birth rate in developed countries – current projections indicate a decline in the population in developed countries; The simulations show that in order to compensate for the decline of Europe's workforce after 2020 and to maintain the level of employment consistently, four million immigrants are needed annually. The admission rate in Europe is about one million immigrants annually. Demographic changes will be carried out for the most part thanks to international migration; a partial resolution of this problem would consist in increasing the retirement age in these countries, by applying coherent employment policies, reforms in pension systems and increasing labour productivity;
- Ageing of the population in developed countries – ageing of the active population and increasing life expectancy lead to an unprecedented increase in the elderly population in developed countries.

The intensity of the challenges and the moment of their production will depend on the internal and regional context. The tendency to increase these stimuli, at least for the next decade, is real, the result being predictable. No country will be immune to the effects of the transition. The world will look different for over 30-40 years.

This foresight is based on the realities of past times. In the year 1800, Europe had 20% of the world's billion population, and Africa only 8% of this population. In the year 2000, the population of the two continents was roughly equal (Europe had 728 million, and Africa 800 million). Projections for the year 2050 indicate a population of 660 million in Europe (representing 7% of the world's population at that time) and 1.8 billion in Africa (20% of the world's population) (Stoica, 2011, p.152).

From a purely economic point of view, the transformation of countries from premises of origin to destination premises for international migration will take place only in a small number of cases; developing countries that have achieved this leap have been able to seize the low cost of labour and intensive exports to the workforce. The majority of developing countries will, however, suffer negative effects associated with development processes and will increase the export of short-term work.

Increasing demographic, economic and security differences between world states and regions and the expansion of modern technologies in communications and transport will foster international migration, will help to strengthen the role of network migrants and reducing the costs of international migration. In this context, there are prerequisites for reconsidering the perception of international migration, in the sense of its transformation into a process that is largely carried out randomly. This process involves a very large budget, employing all the states of the world. The biggest challenge of the 21st century is how migration is guided in the interests of the security of states, but also of individuals.

With regard to the dynamics of immigrant flow, the natural growth of immigrant numbers is being forecast. In view of Romania's accession to the Schengen area, serious immigration management issues will arise. Romania will become extremely attractive to all categories of immigrants, both for legal and illegal immigration.

For proper management of the phenomenon, the necessity of Romania's endowation with equipment and technology at local and regional level, the preparation of human resources from all institutions of local and regional ability, appears.

5. Conclusions

Migration is part of everyday life. It is a continuous, hard to manage and accurately measured phenomenon.

In the situation of Romania, given the lack of previous experience in this field, the still small number of immigrants, refugees and limited financial possibilities, it is found that the integration services and assistance are not entirely satisfactory, in despite the efforts undertaken in recent years to align with international standards.

Globalization is expected to intensify international migration in the 21st century. Evolution will put its mark on the characteristics of future migrationary systems. Current international migration is the result of social disparities between different regions of the globe and the realities of labour markets in the most industrialised countries. The countries of destination of international migration are very involved in this process, providing conditions and circumstances in which international migration survives, and even flourishes.

As for the dynamics of the immigration flow, there are expectations for a ”natural growth” of the number of immigrants. In view of Romania's accession to the Schengen area, serious immigration management issues will arise. In this context, the efforts of institutions with powers to regulate immigration and the prevention of illegal immigration are required to be more closely concerted.

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