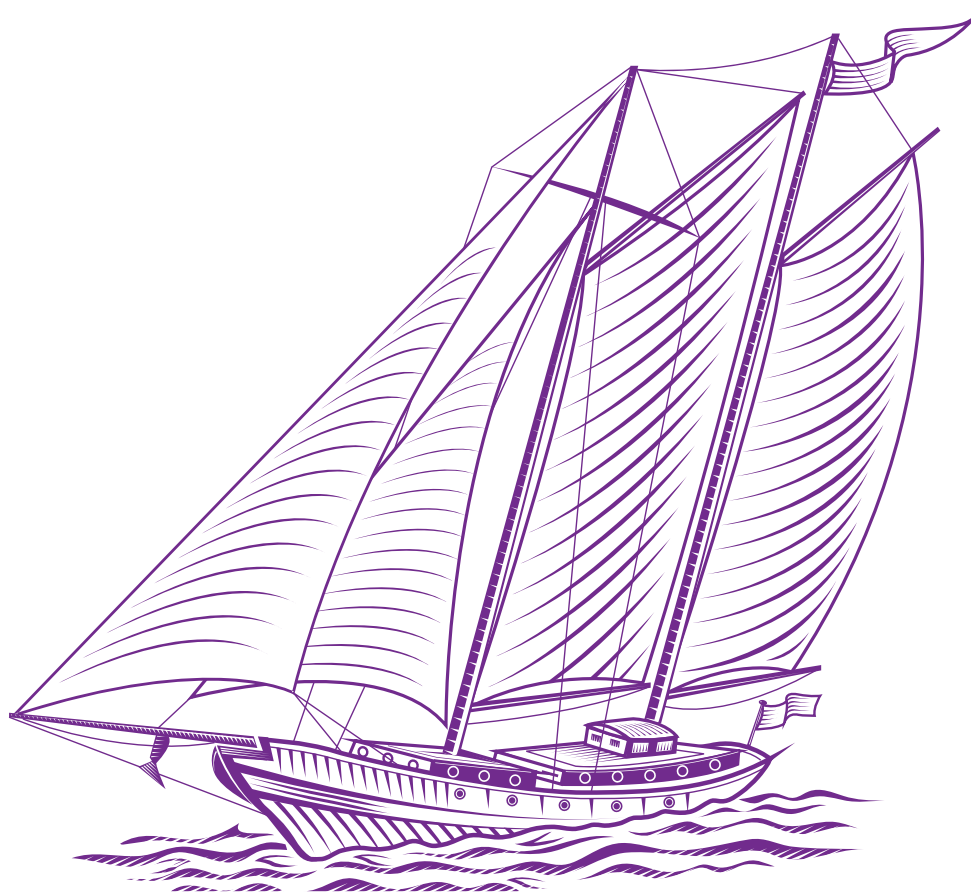




STUDIA UNIVERSITATIS  
BABEŞ-BOLYAI



# NEGOTIA

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# STUDIA

## UNIVERSITATIS BABEȘ-BOLYAI

### NEGOTIA

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## THE ANALYSIS OF RESIDUAL INCOME – THE EMPIRICAL EVIDENCE FROM SLOVENIA

IGOR STUBELJ<sup>1</sup>, MATEJA JERMAN<sup>2</sup>, PRIMOŽ DOLENC<sup>3</sup>

**ABSTRACT.** In this study we were interested in the residual income of selected Slovene companies. This parameter of company's efficiency not only looks at return on invested funds, but also implicitly compares it with risk adjusted opportunity cost of such investment. It is therefore argued that this parameter is a better performance measure than simply accounting performance measures. Our results based on selected listed companies in Slovenia showed that residual income was far from being positive, at least in year 2006. In year 2007 the situation improved when three out of ten selected companies had a negative residual income which means that companies did not create value for their shareholders and that they did not generate enough profits to cover the appropriate cost of capital, i.e. the cost of capital that take into consideration the risk adjusted opportunity cost.

**Keywords:** residual income, risk-adjusted cost of capital, performance measure

### 1. Introduction

Normally investors and managers have the ambition to know, what the value of their business, company, the competitive company or maybe the company in which they intend to invest their capital is. It is the postulate of financial management theory that managers' primary objective should be to increase the value of investors' (i.e. owners') equity capital, i.e. the value of the company or the stock price of company. But how to select the appropriate decision-making measure(s) and find factors that influence on stock price? Glen (2005) argues that without being aware of these factors, managers will not be able to define the consequences of their managerial decisions.

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One of the possible solutions is the concept of residual income as a performance measure and valuation tool. The concept was introduced in early 1920s; however, it was not frequently used since, despite its interesting underlying. The stimulus for its return to the management financial horizon was Stewart's publication in 1991 in which the authors presented their "modernized" version of residual income: Economic Value Added or EVA® (Christensen e.a. 2002). According to this model a company's profits (as accounting category) do not necessary imply that a company is creating value for its owners.

One can argue that more the company invests in profitable projects, higher the profits are. But does the company create value? Not necessarily. This depends on the costs of the sources the company is using. In order to create value, investments' returns are higher than (risk-adjusted) cost of capital.

A positive residual income is the key value in the residual income valuation model. The estimated fair value of the company in this model is the sum of company's book value and a present value of the expected future residual incomes. If the present value of the company's expected residual incomes is positive then the company value is above the book value of equity and a company adds value for their investors. In case of negative residual income investors are loosing value of their capital.

This paper tackles the above dilemmas from the perspective of Slovenian case. We aim to analyze the residual income of selected "first class" Slovenian listed companies and find whether they have positive or negative residual income, i.e. if they make or loose value for their owners.

Following the rising stock prices of Slovenian public companies in the period before year 2007, the obvious hypothesis is the following:

*H1: The majority of selected "first class" listed companies have positive residual income.*

The paper is organized as follows. After the introduction we present the theoretical background of the research (here we present also the basis for the calculation of the cost of equity capital). The third part explains the material and methods in use. The fourth part presents the results and the discussion. In the fifth part follows the conclusion.

## **2. Theoretical background**

### **2.1 Residual Income**

The Residual Income Valuation model or RIV has become prominent in the accounting literature during the past decade. The reason is its apparent

ability to give a constructive role to accounting data in equity valuation. The valuation based on the future cash flows in contrast suggests a general irrelevance of future earnings and other accounting data (Ohlson 2005).

The RIV model is theoretically equivalent to the model of free cash flows that belongs to equity capital and to the dividend discount model. Both models are derived from dividend discount model: RIV model can be expressed as following (Halsey 2001):

$$V_t = \sum_{\tau=1}^{\infty} (1+k)^{-\tau} \cdot Div_{t+\tau}, \quad [1]$$

Where:

- $V_t$  = value of common equity capital at time  $t$ ,
- $k$  = cost of common equity capital,
- $Div_{t+\tau}$  = cumulative expected dividends at time  $t + \tau$ .

The model defines the value of equity capital as the present value of expected dividends.

The book value of common equity can be expressed as:

$$BV_t = BV_{t-1} + E_t - Div_t, \quad [2]$$

Where:

- $BV_t$  = book value of common equity capital at time  $t$ ,
- $BV_{t-1}$  = book value of common equity capital at time  $t-1$ ,
- $E_t$  = net income at time  $t$ ,
- $Div_t$  = cumulative dividends at time  $t$ ,

The residual income at time  $t$  with the following equation can be expressed as:

$$RI_t = E_t - k \cdot BV_{t-1}, \quad [3]$$

Where:

- $RI_t$  = residual income at time  $t$ ,
- $E_t$  = net income at time  $t$ ,
- $k$  = cost of common equity capital of the company,
- $BV_{t-1}$  = book value of common equity capital at time  $t-1$ .

In residual income model dividends are determined by the book value of equity capital and residual income, thus:

$$Div_t = (1 + k) \cdot BV_{t-1} - BV_t + RI_t. \quad [4]$$

As mentioned, RIV model is derived of from dividend discount model (i.e. from the above definition). The model expresses the value of common equity capital as the sum of the book value of the common equity capital and the present value of residual income (Halsey 2001):

$$V_t = BV_t + \sum_{\tau=1}^{\infty} (1 + k)^{-\tau} \cdot (RI_{t+\tau}), \quad [5]$$

Where:

- $V_t$  = value of common equity capital at time  $t$ ,
- $BV_t$  = book value of common equity capital at time  $t$ ,
- $k$  = cost of common equity capital,
- $RI_{t+\tau}$  = expected residual income at time  $t+\tau$ .

Assuming stable growth rate of net incomes, the model can be simplified with the constant growth model. The value of the common capital can thus be derived form the infinite future flows of constantly growing net incomes. First the residual income and the value of expected residual incomes are expressed as:

$$RI_1 = E_1 - k \cdot BV_0 \quad [6]$$

and

$$\frac{RI_1}{k} = \frac{E_1 - k \cdot BV_0}{k}. \quad [7]$$

Finally the value of common equity capital with constant growing expected residual incomes can be calculated as:

$$V_0 = BV_0 + \frac{RI_1}{k - g_{RI}} = BV_0 + \frac{E_1 - k \cdot BV_0}{k - g_{RI}}, \quad [8]$$

where:

- $RI_1$  = expected residual income,
- $E_1$  = expected net income,
- $BV_0$  = book value of common equity capital,
- $k$  = cost of common equity capital,
- $g_{RI}$  = expected growth rate of residual incomes.

Following the assumption that a company is adding value for its owners, i.e. the value of equity capital to be higher than book value, the residual income should be a positive value. Otherwise the value of equity capital would be lower than book value and the owners would be losing money.

According to the RIV model the value of equity capital is calculated as the sum of book value of equity capital and present value of expected residual income in subsequent years. The RIV model and free cash flows to equity model (DCF) are theoretically the same. As mentioned above, both models have the same theoretical background: they both derive from the underlying assumption that total common equity value is equal to the present value of expected dividends. The free cash flow model merely defines dividends in term of free cash flows and the residual income model defines them in terms of residual earnings (Halsey 2001).

And what is the performance of RIV model comparing to other possible methods? In his study relating investment performance of the RIV models on German stock market Jamin (2005) found that – in contrast to the theoretical prediction – the performance of the RIV models is not much better than simple ratios analysis.

Some recent studies compared RIV and DCF models. For estimating the value of shares these studies showed that the RIV is more accurate than DCF models and dividend models (Halsey 2001).

Many studies have focused also on residual income and EVA as performance measures (see Dodd and Chen 1996, Biddle e.a. 1997, Chen and Dodd 1998). EVA can be calculated as:

$$EVA_t = NOPAT_t - WACC_t \cdot IC_{t-1} = EBIT_t \cdot (1 - T) - WACC_t \cdot IC_{t-1}, \quad [9]$$

where:

- $NOPAT_t$  = Net Operating Profit after Taxes in year  $t$ ,
- $WACC_t$  = Weighted Average Cost of Capital in year  $t$ ,
- $IC_{t-1}$  = Invested Capital in year  $t-1$ ,
- $EBIT_t$  = Earnings before Interest and Taxes in year  $t$ ,
- $T$  = tax rate.

In principle the residual income is equal to economic value added (EVA), which was developed by Joel Stern and Bennett, and is often called simply residual income (see Rawley and Schostag 2006). The difference between RIV model and EVA is that in RIV model the residual income relates to residual income of equity capital and in EVA the residual income relates to residual income of the whole capital structure. However, the

findings of empirical studies were not unanimous regarding the superiority of single/individual performance measures and the quality of their results explaining the market values.

## 2.2 Cost of equity capital

The cost of capital is an essential parameter in the calculation of residual income. The cost of equity capital is the minimum return investors request on their invested capital; therefore it is used as a discount factor for the future earnings and cash flows from the new investment opportunities. Even a small change in the cost of capital causes a rather extensive change of value. The profitability on the level of the capital cost is not an added value; it is a cost of the invested capital. It is a profitability that investors demand for the risk they bear.

The equity capital is not “working” for free, for its use owners demand certain compensation. It is a scarce good. In aggregate it is limited to the amount that people in the whole world are willing to save (invest). The task to earn a capital cost is not a question of company financing or worse defined subordinated to other company goals, which many managers think. To earn a cost of capital is the market mandate (Stewart 1991).

In the oft-cited publication *Stocks, Bonds, Bills, and Inflation* Ibbotson and Sinquefeld wrote: “Estimating the cost of capital is one of the most important and difficult tasks performed by financial analysts. There is no clear consensus on the best way to approach this problem. Because of the impact that the cost of capital can have on valuation and financial decision making the analyst should typically use at least two methods to derive the cost of equity” (Ibbotson Associates 1997 in Borgman and Strong 2006).

Many models and techniques are developed to estimate the cost of equity capital, such as: the Capital Asset Pricing Model (CAPM) (Black 1972, Lintner 1965, Ross 1976, Sharpe 1964), the Fama and French Three Factor Model (Koller e.a. 2005, Estrada 2005), the Arbitrage Pricing Theory and others.

The primary conclusion of the CAPM is that the relevant risk of an individual stock is its contribution to the risk of a well diversified portfolio. According to CAPM required rate of return for  $i$ -th share is calculated as follows:

$$r_i = r_f + \beta_i \cdot (r_m - r_f), \quad [10]$$

Where:

$r_i$  – required rate of return,



$r_f$  – risk free rate,  
 $\beta_i$  – beta coefficient,  
 $r_m$  – market rate of return  
 $(r_m - r_f)$  – market risk premium.

Several shortcomings arise from the following assumptions on which CAPM is based: a) asset returns are linearly related to their covariance with the market's return, b) assets with higher systematic risk have a higher return than do assets with lower systematic risk, and assets with the same systematic risk should give the same return, c) there is no relationship between firm-specific risk and returns because specific risk can be eliminated through diversification (Gunnlaugsson 2006), and d) the total risk of a stock is a combination of systematic (market) and nonsystematic (specific) risk (Antunović 1999). McNulty at al. (2002) found three central shortcomings of CAPM: a) the validity of beta, b) the reliance of historical data, and c) the indifference of holding period (Zellweger 2007).

However, surveys have found that CAPM approach is by far the most widely used method (Brigham and Ehrhardt 2005). This is probably due to a very simple reason: it yields an essential magnitude, the return investors should require from an asset given the asset's risk (Estrada 2005). Interesting are the results of the study of Gunnlaugsson (2006) made on the validity of the CAPM on the small Icelandic stock market. They indicate that the CAPM has worked well in the small Icelandic stock market and that it, or the beta coefficient, does explain returns better than on larger foreign stock markets. A in the research strong relationship between the beta and stock returns was found. Further, the stock returns with high betas were higher than one would expect, according to the CAPM. Nagel, Peterson and Prati (2007) have conducted empirical tests on different cost of equity estimation methods based on historical returns. In the direct comparisons of these methods, they have found that the best *ex-ante* estimation method available to financial managers is essentially the CAPM with beta restricted to one; that is, a naive model where the cost of equity capital equals the risk-premium added to the risk-free rate.

### **3. Material and methods**

#### **3.1 Data**

We have selected ten publicly traded companies. The companies are listed in prime quotation on Ljubljana Stock Exchange and are all part of general Ljubljana Stock Exchange Index (SBI20) (besides five other

stocks). These companies were selected because of the data availability and high liquidity of their stocks.

Table 1 shows data from companies' consolidated annual reports.

**TABLE 1.**

Data of the selected Slovene publicly traded companies						
Company	Net Income (E) €			Book value of equity capital (BV) €		
	2005	2006	2007	2005	2006	2007
Aerodrom Ljubljana, d.d.	8.019.231	8.801.933	16.701.642	91.264.732	97.171.482	110.291.482
Gorenje, d.d.	21.373.955	22.316.000	23.664.000	245.100.937	254.433.000	350.985.000
Intereuropa, d.d.	9.601.583	6.742.000	26.477.000	176.104.203	181.340.000	186.154.000
Istrabenz, d.d.	13.027.959	28.686.519	116.391.348	364.973.107	402.357.530	447.490.787
Krka, d.d.	97.335.154	112.086.000	132.853.000	479.585.321	570.905.000	680.913.000
Luka Koper, d.d.	20.098.403	20.702.547	30.865.130	271.009.761	294.887.189	340.663.798
Mercator, d.d.	13.626.208	30.149.000	43.814.000	551.175.107	647.880.000	688.196.000
Petrol, d.d.	35.061.788	49.830.421	53.275.106	355.772.516	396.397.488	440.217.925
Pivovarna Laško, d.d.	5.241.673	19.204.783	61.290.469	175.940.071	303.411.848	322.929.993
Sava, d.d.	38.466.242	34.078.000	39.262.000	393.015.507	432.532.000	545.408.000

Source: consolidated annual accounts

For the calculation of betas daily data on relevant share prices and stock-exchange index was downloaded from the Ljubljana Stock Exchange (2009) web site.

### 3.2 Cost of equity capital

The cost of equity capital was calculated with CAPM according to eq. [10]. Three input variables were estimated: (1) risk-free rate of return, (2) market risk premium and, (3) beta coefficient.

#### *Market risk premium*

Risk premium was calculated using the Damodaran (2009) method, which calculates the market risk premium based on a market risk premium of a mature US market plus country risk premium. The market risk premium for Slovenian market was 5,66% in the year 2007 and 5,54% in the year 2008 (see Damodaran 2009 for details).

#### *Risk-free rate of return*

Risk free rate was calculated as the sum of the yield to maturity of 30-year inflation indexed US Treasury Bond and the upper limit of the ECB target inflation. The later was used as the best estimate of the future inflation in Slovenia (part of EMU area). Yield to maturity of 30-year inflation indexed

US Treasury Bond was 2,28% and 2,3% in September 2007 and 2008, respectively, so relevant risk-free rate of return for Slovenia were:

$$r_{f2007} = YTM_a + i = 2,28\% + 2\% = 4,28\% \quad [11]$$

and

$$r_{f2008} = YTM_a + i = 2,30\% + 2\% = 4,30\%, \quad [12]$$

where:

- $r_f$  = risk-free rate,
- $YTM_a$  = Yield to Maturity of 30-year inflation indexed US Treasury bond (Federal Reserve Bank of St. Luis 2009),
- $i$  = the ECB target inflation rate (<2%) (ECB 2009).

#### *Measure of the market risk – beta*

In developed markets (i.e. US financial market) relevant betas are usually available on-line (see Bloomberg, NYSE, Damodaran online or others financial web sites). However, in Slovenian case betas are not computed and published, at least not regularly, therefore betas were properly estimated. Beta coefficient was estimated from historical data as:

$$\beta = \frac{Cov_{i,m}}{\sigma_m^2}, \quad [13]$$

where:

- $Cov_{i,m}$  = covariance between returns of the investment and a market portfolio,
- $\sigma_m^2$  = variance of returns of market portfolio.

However, the same specification of beta comes also from linear regression, according to which it can be easily estimated. Beta is a slope in the linear regression equation where the dependent variable is the past returns of an individual investment and the independent variable is the past returns (a proxy) of a market portfolio, therefore:

$$\hat{r}_i = \alpha + \beta \cdot r_{SBI20}, \quad [14]$$

where:

- $\hat{r}_i$  = expected market return of the stock,
- $r_{SBI20}$  = return of market index SBI20,
- $\alpha$  = intercept,
- $\beta$  = slope – beta coefficient.

In our case beta was estimated as regression coefficient as it follows from eq. 14. The analytical problem in calculating beta is which time intervals should be used for calculating beta; in this respect analytics usually suggest using different intervals in order to avoid subjectivity. Therefore we calculated betas using the following set of data:

1. for betas that were calculated on the basis of 20 trading days data for 4 years (2004-2007) was used;
2. for betas that were calculated on the basis of 10 trading days data for 2 years (2006-2007) was used;
3. for betas that were calculated on the basis of 5 trading days data for 1 year (2007) was used.

With change of intervals on trading days we simplified the calculation: we eliminated the disturbances of non-trading days.

We have calculated the share and index returns as follows below. The date of the end of the previous interval is also the date of the start of the next interval.

Interval return of market index SBI20 was calculated as:

$$r_{SBI20} = \frac{V_{0+t}}{V_0} - 1, \quad [15]$$

where:

- $r_{SBI20}$  = interval market index return,
- $V_0$  = value of index on interval start date,
- $V_{0+t}$  = value of index on interval end date,
- $t$  = length of interval in days: 5, 10 or 20.

Interval return of  $i$ -th stock was calculated as:

$$r_i = \frac{P_{0+t}}{P_0} - 1, \quad [16]$$

where:

- $r_i$  = interval market return of  $i$ -th stock,
- $P_0$  = market value of stock on interval start date,
- $P_{0+t}$  = market value of stock on interval end date,
- $t$  = length of interval in days: 5, 10 or 20.

As mentioned, we calculated three sets of data (for time intervals of 5, 10 and 20 days) and then we finally calculated average estimates of betas.

### 3.3 Residual income calculation

We have calculated the residual income as:

$$RI_t = E_t - k * BV_{t-1}, \quad [17]$$

where:

- $RI_t$  = residual income for year  $t$ ,
- $E_t$  = net income for year  $t$ ,
- $BV_{t-1}$  = book value of common equity capital at the end of the year  $t-1$ ,
- $k$  = cost of common equity capital.

Further we have calculated the return on equity capital (ROE) as:

$$ROE_t = \frac{E_t}{BV_{t-1}} \cdot 100, \quad [18]$$

where:

- $ROE_t$  = return on equity capital for year  $t$ ,
- $E_t$  = net income for year  $t$ ,
- $BV_{t-1}$  = book value of common equity capital at the end of the year  $t-1$ .

It is worthwhile noticing that we have used estimated cost of equity capital in September 2007 for calculating residual income of the year 2006. This decision may be debatable, but we argue our choice as follows: investors can evaluate the respective residual income on the basis of published, possibly revised, data. This data is available at the latest in the 2<sup>nd</sup> half of the year for previous year. And not before then can they apply the relevant cost of equity capital and calculate residual income following the above methodology.

Following equations [17] and [18] residual income in % was calculated as:

$$RI_t(\%) = \frac{RI_t}{BV_{t-1}} = ROE_t - k \quad [19]$$

where:

- $ROE_t$  = return on equity capital for year  $t$ ,
- $E_t$  = net income for year  $t$ ,

- $BV_{t-1}$  = book value of common equity capital at the end of the year  $t-1$ ,
- $k$  = cost of common equity capital.

#### 4. Results and discussions

Table 2 presents estimated betas for selected listed companies on Slovenian Stock Exchange and their respective costs of equity capital, estimated for September 2007 and 2008. Average beta for 10 companies is near 1, but not exactly 1, because Stock Exchange Index consists of 5 additional stocks. The cost of equity capital ranges from 8,2 to 14,6% in September 2007 and from 8,8 to 12,7% in September 2008.

**TABLE 2.**

Company	$\beta$		Cost of equity capital %	
	Sep. 2007	Sep. 2008	Sep. 2007	Sep. 2008
Aerodrom Ljubljana, d.d.	1,17	1,22	10,9	11,1
Gorenje, d.d.	0,83	0,84	9,0	9,0
Intereuropa, d.d.	1,55	1,07	13,1	10,2
Istrabenz, d.d.	1,83	1,31	14,6	11,6
Krka, d.d.	0,69	0,92	8,2	9,4
Luka Koper, d.d.	1,28	1,16	11,5	10,7
Mercator, d.d.	1,20	1,00	11,1	9,8
Petrol, d.d.	1,15	1,52	10,8	12,7
Pivovarna Laško, d.d.	1,36	0,82	12,0	8,8
Sava, d.d.	1,08	1,12	10,4	10,5
Average	1,18	1,09	11,0	10,3

Note: Average is calculated as weighted average where weight is market capitalization.

Results in table 3 draw our attention. As we can see from the above table in 2006 just two companies (Krka and Petrol) had positive, whereas all others had negative residual incomes. This is not straightforward, because it means that the later companies (8 of 10) did not earn a sufficient to compensate their investors!

In the 2007, however, the situation improved, but still three out of ten companies “earned” a negative residual income (see table below). On the other hand, three companies (Istrabenz, Krka and Pivovarna Laško) earned a substantial residual income.

**TABLE 3.**

## Residual income and return on equity for selected companies

Company	Residual income (RI) €		Return on equity (ROE) %		Cost of equity capital (k) %		Residual income (RI) %	
	2006	2007	2006	2007	2007	2008	2006	2007
Aerodrom Ljubljana, d.d.	-1.147.931	5.955.642	9,6	17,2	10,9	11,1	-1,3	6,1
Gorenje, d.d.	311.328	883.087	9,1	9,3	9,0	9,0	0,1	0,3
Intereuropa, d.d.	-16.244.882	7.929.907	3,8	14,6	13,1	10,2	-9,2	4,4
Istrabenz, d.d.	-24.737.514	69.889.279	7,9	28,9	14,6	11,6	-6,8	17,4
Krka, d.d.	72.830.023	79.206.199	23,4	23,3	8,2	9,4	15,2	13,9
Luka Koper, d.d.	-10.530.786	-765.649	7,6	10,5	11,5	10,7	-3,9	-0,3
Mercator, d.d.	-30.877.108	-19.937.392	5,5	6,8	11,1	9,8	-5,6	-3,1
Petrol, d.d.	11.446.124	2.850.174	14,0	13,4	10,8	12,7	3,2	0,7
Pivovarna Laško, d.d.	-1.868.615	34.460.366	10,9	20,2	12,0	8,8	-1,1	11,4
Sava, d.d.	-6.767.316	-6.174.622	8,7	9,1	10,4	10,5	-1,7	-1,4

Obvious question that arises after thorough examination of the above results is, how come that some companies do not earn enough to compensate a normal cost of equity for their owners. We believe that companies in Slovenia (owners and managers) mostly follow accounting parameters of managerial efficiency (i.e. ROA and ROE) and some other parameters (e.g. market share...). Although these parameters might be of some use, they lack of crucial information, at least for investors: what is the opportunity cost of the investment, taking into account the risk they are taking. Accounting parameters do not take into account measures as opportunity cost and risk and, are thus spurious. This might derive from Slovenian transition and ownership structure of selected companies. First, some of these companies were somehow “privatized” in 1990s and the ownership is usually not concentrated in single or group of strong private owners. Instead, the usual ownership structure in these companies is such that there are many small investors with an important share of stated funds and maybe one or two stronger private investors with a share less than 25%. Such ownership structure usually does not result in strong supervision of results. Second reason might be that even in companies with concentrated private owners these are not aware of the real cost of equity capital (including its opportunity cost and especially the appropriate spread for risk they are taking). This might be more relevant for small private enterprises, though, but it might hold also for some selected companies in our sample.

It is, though, obvious that some changes incurred in 2007, compared to 2006. The reasons for extensive differences in residual incomes in two subsequent years can arise from two sources: a) companies might have

increased substantially net incomes relatively to the book value of the equity capital (ROE); and/or b) companies lowered substantially the cost of capital in 2007. In order to get a broader picture we have calculated the index rate of ROE change and the cost of capital, the results is in the table below.

**TABLE 4.**

The rate of change of ROE (2006 to 2007) and the estimated cost of capital (2007 to 2008) for selected companies

Company	C-ROE %	C-k %
Aerodrom Ljubljana, d.d.	78,2	1,4
Gorenje, d.d.	2,2	-0,3
Intereuropa, d.d.	281,4	-21,6
Istrabenz, d.d.	268,0	-21,0
Krka, d.d.	-0,4	14,8
Luka Koper, d.d.	37,0	-6,9
Mercator, d.d.	23,6	-11,1
Petrol, d.d.	-4,0	17,9
Pivovarna Laško, d.d.	85,1	-26,2
Sava, d.d.	4,7	1,1
Average	77,6	-5,2

Note: C-ROE is the percentage change of return of equity from the year 2006 to 2007 and C-k is the percentage change of cost of equity capital from September 2007 to September 2008.

Companies have substantially increased the returns on equity in 2007. This means that they have increased the net incomes relatively to the book value of equity capital. The increase of the net income can arise from:

a) better performance of companies' investments (in the case of largest increases (Istrabenz and Intereuropa) this was due to profits from financial investments);

b) increased reported earnings due to fiscal changes (the tax rate for profits decreased from 25% in 2006 to 23% in 2007 and the effects of this change was studied by another study (Stubelj and Dolenc 2009), which found a negative shift in the explanatory power of the net income growth rates from 2006 to 2007 (using the same estimation methodology) which can be contributed to tax reform; and

c) lower cost of equity capital (the average cost of equity capital decreased in one year for 5,2%; regarding the fact that estimated risk free rate and the risk premium were the same in these years, the decreased cost of capital arises from lower estimated beta, thus lower risk for investors).



## 5. Conclusions

In this study we were interested in the residual income for selected Slovene companies. We found (and not confirm our hypothesis) that residual income in some selected companies was far from being positive, at least in year 2006. In year 2007 the situation improved and only three out of ten selected companies had a negative residual income which means that companies did not create value for their shareholders and that they did not generate enough profits to cover the appropriate cost of capital, i.e. the cost of capital that take into consideration the risk adjusted opportunity cost.

These results raise many questions for further possible research. We have speculated that abstained results might be correlated to ownership structure in Slovenian companies and that the lack of strong, pretentious owner might allow managers to lead the company in a manner where the cost of (equity) capital is not its first preoccupation. This might be due to transition from previous system and still important government ownership where the risk adjusted opportunity cost is of lower importance. These speculations are worthwhile examining in the future, where corporate governance and awareness of cost of capital by managers and investors could be taken into consideration in a rather qualitative research.

Another point that might be of interest based on these results is how the stock market reacts on published results. This respect was not examined yet in Slovenia, but it seems that investors on stock exchange evaluate companies' results more or less through comparison of past and new results, degree of growth, and comparison of results of similar companies, but not through the perspective of cost of (equity) capital and residual income.

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## EVALUATION OF THE ORAL ANTI-DIABETIC DRUGS MARKET IN ROMANIA DURING 2004-2007

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**ABSTRACT.** The increased prevalence of diabetes mellitus, mainly of the non-insulin dependent has brought about more sales of oral anti-diabetic drugs. Starting from the sales in the interval 2004-2007, we tried to make a medium term estimate of sales for the period 2008-2010. The software Statgraphics Plus and the index method have been used. Results show that the best sold medicines for the interval in question were *Siofor* (Berlin Chemie), *Amaryl* (Sanofi-Aventis), *Diaprel* (Servier) and *Glibomet* (Berlin Chemie), and the same products are supposed to increase in sales in the interval 2008-2010.

**Keywords:** diabetes mellitus, survey of anti-diabetic drugs market, sales estimate, index method, Statgraphics Plus

### Introduction

Diabetes mellitus is a metabolic disease with multiple and serious consequences upon the individual and society as well. The disease has an alarming dissemination in the world with rising prevalence in developed countries and similar trend in developing countries, such as Romania. If in

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1995, 195 million persons had diabetes mellitus in the world, in 2006, their number increased to about 246 million, and it is estimated that in 2030, the diabetic population will number 380 million. In Romania, at the end of 2007, there were 600.000 patients diagnosed with this disease, but it is presumed that an equivalent number of patients have not yet been diagnosed. 90% of the patients suffering of diabetes mellitus are not dependent upon insulin, meaning that the majority of the patients are treated with oral anti-diabetic drugs (Hâncu et al., 2008) (IDF, 2003).

Under these premises, we developed a study with the aim of making a survey of the evolution of oral anti-diabetic drugs sales in the period 2004-2007, starting from the assumption that their tendency is also to grow. Another supposition is that for the newly therapy penetrating classes of drugs that exhibit higher pharmacological and therapeutic properties sales will also grow up despite their high price. All these suppositions are in correlation with the present-day tendencies on the anti-diabetic drug market.

### **Material and method**

The authors have assessed the market and its trends on the basis of the following materials: sales reports published on the Internet, final activity reports of the companies Novo Nordisk and Sanofi-Aventis, market research company-produced reports (Business Insights, CEGEDIM, PharmMIS etc.).

The research methods include: the exploratory research method, the comparative method, the logical method, the causal prediction method and statistical methods as well. The exploratory and descriptive methods are used to identify and detail accurately the features of the market and factors intervening in its operation. Causal, logical and predictive methods help the marketing researcher find information on the phenomena influencing the market and on its tendencies during a given interval. They also have an important contribution to predicting the evolution in time of the market related-phenomena and dimensions (Lazăr, 2002).

The present study has performed a survey of value and amounts of sales for the interval 2004-2007, by means of the average modification index (IMM). Then, sales were forecast for the interval 2008-2010. Market dynamics and the introduction of new molecules in therapy determined us not to perform a long term study and focus upon a medium term study.

The value and quantity of sales estimation for the period 2008-2010 was made with the help of the software called **STATGRAPHICS PLUS**. The software in question helped develop more statistical models; one of these will be presented below. It is the model given by the software when p

has the lowest value (test ANOVA). The correlation coefficient (R) and the determination coefficient (R<sup>2</sup>) were also defined (Chifu, 2008).

### **Results and discussion**

In 2005, the overall anti-diabetic drugs value reached 18,2 billion USD, of which 59% represented oral medication and 41% insulins. (Chambre de Commerce et d'Industrie de Paris, 2006)

Hauber and Gale (2006) estimated that in 2005, the anti-diabetic drugs reached the level of 17,8 billion USD, of which ~57% will be represented by oral medication: **thiazolidindione**: 4 billion USD; **sulfonylurea**: 2,2 billion USD; **biguanides**: 1,8 billion USD; **alpha-glucosidas inhibitors**: 0,8 billion; other drugs: 1,4 billion.

Other data reveal that the market of oral anti-diabetic drugs (ADO) exceeds, in 2005, 10,8 billion USD (Frost & Sullivan Research, 2006).

A study published in France in 2006 shows that sulfonylureas are in a constant decline. In 2000, sulfonylureas sales formed 22% of the world ADO market. The authors of this study estimated that in 2003, ADO sales will reach only 13%, while in 2007 not more than 11% of the sales at world level (Chambre de Commerce et d'Industrie de Paris, 2006).

The most significant producers of oral anti-diabetics in the world are Takeda in partnership with Eli Lilly, Glaxo, Novo Nordisk, Sanofi-Aventis, Servier, Novartis, Merk KgaA and Bayer. (Brandgaard, 2006) The top of the 10 best sold anti-diabetics in the world includes six oral drugs: **Avandia** (Glaxo), **Amaryl** (Sanofi-Aventis), **Basen** (Takeda), **Metformin HCl** (Bristol Meyers Squib) and **Avandamet** (Glaxo), the first two entering the blockbuster group, with sales over 1 billion USD/year (Chambre de Commerce et d'Industrie de Paris, 2006).

#### **A) Market analysis for the period 2004-2007**

Oral anti-diabetics had a percentage of 43,7% out of the overall value sold in (62.308.123 EUROS) and a weight of de 80,75% of the total volume sold in 2007 (6.509.831 boxes) (SC Allofarm SRL, 2008).

In 2007, the value of the Romanian market for oral anti-diabetic drugs represented 27.236.501 Euros (compared to 2004 a 46,48% increase, from 18.594.273 EUROS), and the overall marketed amount represented 5.256.334 boxes, with 54,73% more than in 2004 (3.397.094 boxes) (SC Allofarm SRL, 2008). Most prescribed ADO drug classes as value and quantity as well included: **sulfonylureas** (10.142.638 EUROS- 2.145.669 boxes) and **biguanides** (7.082.360 EUROS– 2.205.961 boxes).

During the interval under investigation, the weight in the market total value increased only for the **fixed combinations** (from 10,47% to 14,6%) and for the **biguanides** (from 25,08% to 26%). Quantitatively, however, **alpha-glucosidase inhibitors** increased too (from 0,64% to 0,75%), **fixed combinations** (from 8,28% to 11,55%) and **biguanides** (from 36,31% to 41,97%). Among total ADO sales, **thiazolidindiones** hold an important part (>12% of the value). A significant decrease (>5%) in volume and value can be found in **sulfonilureas**. This tendency is in concordance with the results obtained by Kusnik-Joinville (2007), a research carried out in France, between 2000-2005, that points out to the trends of using less sulfonylureas in the diabetic treatment (from 66,1±2,1% to 54,6±1,9%). The same study highlights also an increasing trend in oral therapy mixed with two ADO (from 34,9±2,3% la 36,0±2,1%) and respectively three ADO (from 10,7±1,5% to 12,4±1,4%). The average modification index for the interval 2004-2007 was **1,15** both in value and quantity for oral anti-diabetic drugs. The structural classes with the highest value and quantity increase for the interval under study are: **fixed combinations** (104,23% increase in value, 115,65% increase in quantity); **alpha-glucosidase inhibitors** (416,98% increase in value, 70,58% increase in quantity) and **biguanides** (51,86% increase in value, 78,83% increase in quantity). **Glinides** increased less (8,7% increase in value and 9,14% increase in quantity) (see Figure 1).

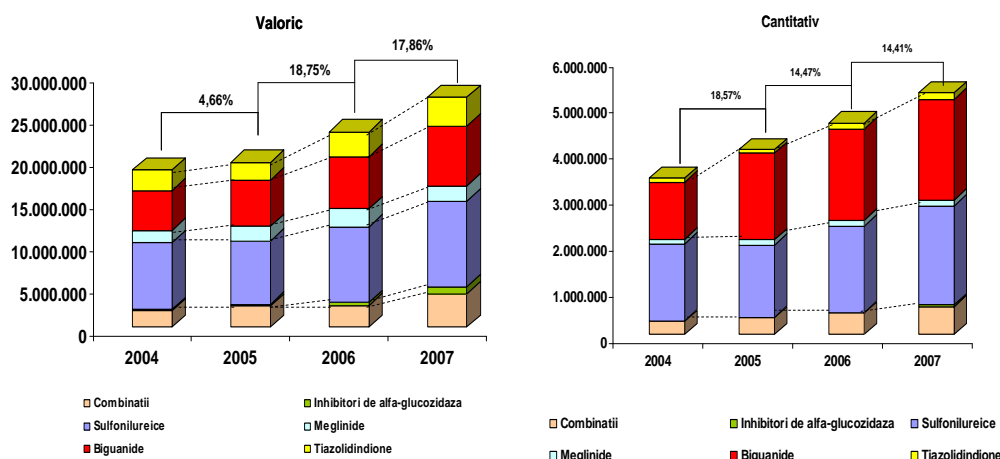


Figure 1. ADO sales as per structural classes in the interval 2004-2007

**Table 1.****Market shares for oral anti-diabetic drugs in 2007 – Romania**

<b>Common international name</b>	<b>Product</b>	<b>Company</b>	<b>Value of sales 2007 (Euros)</b>	<b>Quantity of sales 2007 (boxes)</b>	<b>Percentage in value (%)</b>	<b>Percentage in volume (%)</b>
Metformin	<b>SIOFOR</b>	BERLIN CHEMIE	5,797,990	1,375,647	21.29%	26.17%
Glimepirid	<b>AMARYL</b>	SANOFI-AVENTIS	3,839,716	741,510	14.10%	14.11%
Gliclazid	<b>DIAPREL</b>	SERVIER	2,761,249	448,971	10.14%	8.54%
Glibenclamid + Metformin	<b>GLIBOMET</b>	BERLIN CHEMIE	2,305,018	536,068	8.46%	10.20%
Pioglitazona	<b>ACTOS</b>	ELI LILLY	2,291,692	70,484	8.41%	1.34%
Repaglinida	<b>NOVONORM</b>	NOVO NORDISK	1,855,161	121,707	6.81%	2.32%
Rosiglitazona + Metformin	<b>AVANDAMET</b>	GLAXOSMITHKLINE	1,650,261	66,365	6.06%	1.26%
Glipizid	<b>GLUCOTROL</b>	PFIZER	1,502,359	192,146	5.52%	3.66%
Rosiglitazona	<b>AVANDIA</b>	GLAXOSMITHKLINE	1,109,338	66,065	4.07%	1.26%
Glibenclamid	<b>MANINIL</b>	BERLIN CHEMIE	872,875	318,177	3.20%	6.05%
Acarboza	<b>GLUCOBAY</b>	BAYER SCHERING	780,091	39,588	2.86%	0.75%
Buformin	<b>SILUBIN</b>	GRUNENTHAL	612,977	204,146	2.25%	3.88%
Gliquidon	<b>GLURENORM</b>	BOEHRINGER ING	433,069	101,876	1.59%	1.94%
Metformin	<b>MEGUAN</b>	GEDEON RICHTER	355,336	469,721	1.30%	8.94%
Gliclazid	<b>ESQUEL</b>	GEDEON RICHTER	269,479	90,901	0.99%	1.73%
Gliclazid	<b>DIABREZIDE</b>	MOLTENI	178,771	55,860	0.66%	1.06%
Glimepirid	<b>AMYX</b>	ZENTIVA AS	155,363	38,972	0.57%	0.74%
Metformin	<b>METFOGAMMA</b>	WORWAG PHARMA	147,787	23,118	0.54%	0.44%
Metformin	<b>METFORMIN LPH</b>	LABORMED	96,828	91,578	0.36%	1.74%
Glibenclamid	<b>GLIBENCLAMID</b>	ARENA	42,764	110,500	0.16%	2.10%
Glimepirid	<b>GLIMEPIRID LPH</b>	LABORMED	34,698	8,887	0.13%	0.17%
Glibenclamid	<b>GLIBENCLAMID LPH</b>	LABORMED	22,507	18,741	0.08%	0.36%
Metformin	<b>METFORMIN</b>	ARENA	22,050	30,894	0.08%	0.59%
Metformin	<b>METFORMIN AL</b>	ALIUD PHARMA	21,759	2,963	0.08%	0.06%
Metformin	<b>GLUCOPHAGE</b>	MERCK AG	21,330	4,548	0.08%	0.09%
Glimepirid	<b>GLIMEPIRIDE</b>	ACTAVIS	20,901	6,137	0.08%	0.12%
Glibenclamid + Metformin	<b>GLUCOVANCE</b>	MERCK AG	18,791	4,148	0.07%	0.08%
Metformin	<b>DIAFORMIN</b>	TERAPIA	5,997	2,694	0.02%	0.05%
Glimepirid	<b>GLEMPID</b>	EGIS	4,521	1,564	0.02%	0.03%
Glibenclamid	<b>GLIBENCLAMID</b>	LAROPHARM	3,491	11,108	0.01%	0.21%
Glibenclamid + Metformin	<b>GLIFORMIN</b>	LABORMED	1,151	279	0.00%	0.01%
Glimepirid	<b>GLIPREX</b>	MEDICO UNO	455	170	0.00%	0.00%
Glipizid	<b>GLIPIZID LPH</b>	LABORMED	420	149	0.00%	0.00%
Metformin	<b>DIGUAN</b>	ZENTIVA SA	306	652	0.00%	0.01%
<b>TOTAL</b>			<b>27,236,501</b>	<b>5,256,334</b>	<b>100.00%</b>	<b>100.00%</b>



Of the 34 oral anti-diabetic drugs sold in Romania, at the end of 2007, seven brands (20,59%) hold 75,27% of the overall market value and 77,89% of the total volume (Table 1). This proves that the 80/20 rule or Pareto rule (Wall Street, 2005) is strictly obeyed in the case of oral anti-diabetics.

Table 1 shows that *Siofor* (Berlin Chemie, Germania) was most often prescribed in 2007, in Romania, its value market share being 21,29% , while its quantity share was of 26,17% , the drug being followed by: *Amaryl*, *Diaprel* and *Glibomet*.

Among **sulfonylureas**, beginning with 2006, the selling of the only first generation product *tolbutamid* was forbidden. For *gliquidone*, a product in the same class, no generic drugs can be found as marketed in Romania, during 2004 and 2007.

The value of sulfonylureas sold in 2007 reached 10.142.638 Euros, for a total volume of 2.145.669 boxes (SC Allofarm SRL, 2008):

- *glimepiride*: 39,99% (value) and 37,16% (volume);
- *gliclaside*: 31,64% (value) and 27,76% (volume);
- *glibenclamide*: 9,28% (value) and 21,37% (volume);
- *glipiside*: 14,82% (value) and 8,96% (volume);
- *gliquidonne*: 4,27% (value) and 4,75% (volume).

Among *sulfonylurea derivatives*, most often prescribed preparations include *glimepiride* (Figure 2). Though, for the interval 2004-2007, many generic products received authorisation, the original product, *Amaryl* (Sanofi-Aventis), maintained its weight to over 90% of the sales. Only Zentiva with its preparation, *Amix*, managed to cover a larger market share (3,83% value and 4,89% quantity). The preparations of the companies Actavis, Egis, Medico Uno and Labormed managed to penetrate the market, though in an insignificant proportion (SC Allofarm SRL, 2008).

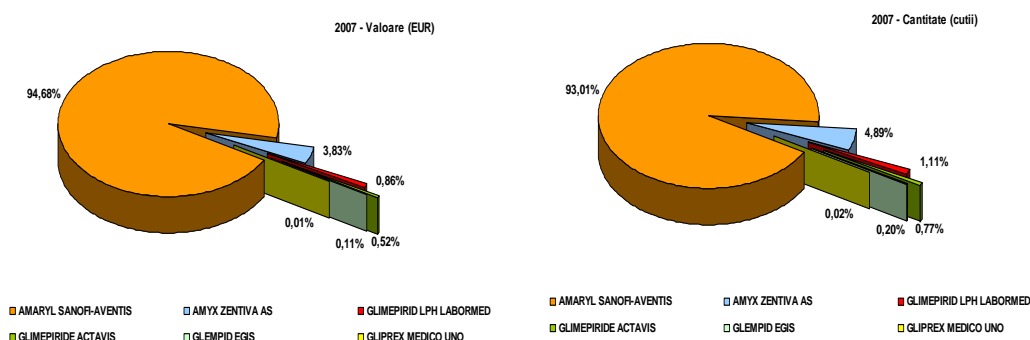


Figure 2. Sales of glimepiride in 2007

From the *gliclaside*-containing products (Figure 3), the Servier Company and its product *Diaprel* (Servier, Franța) managed to maintain its weight in the volume of sales (over 75%). The decentralization of the diabetes mellitus program has led to a 2004-2007 significant decrease of the market share for *Diabrezide*, (Lab. Molteni, Italy), 7% as value and respectively 12% as volume, in favor of *Esquel* (Gedeon Richter Romania). The preparation *Glidiet* (Modi Mundipharma, India) was not sold anymore in Romania, in 2007 (SC Allofarm SRL, 2008).

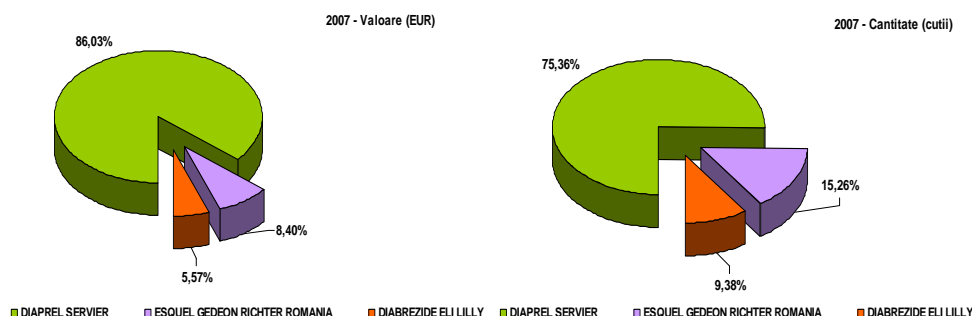


Figure 3. Gliclaside sales in 2007

Though the value of *Maninil* (Berlin Chemie) represents 92,07% of total sales, the quantity of sold product decreased in 2007 up to 69,39%. A significant weight in volume (over 24%) belongs to *Glibenclamid* (Arena). The value shares of the three Romanian producers (Arena, Labormed and Laropharm), under individual volume shares, demonstrate that they used to sell at lower prices than the market leader. Among the products that contain *glibenclamid*, the product of Sicomed-Zentiva is no more in sales after 2006 (see Figure 4) (SC Allofarm SRL, 2008).

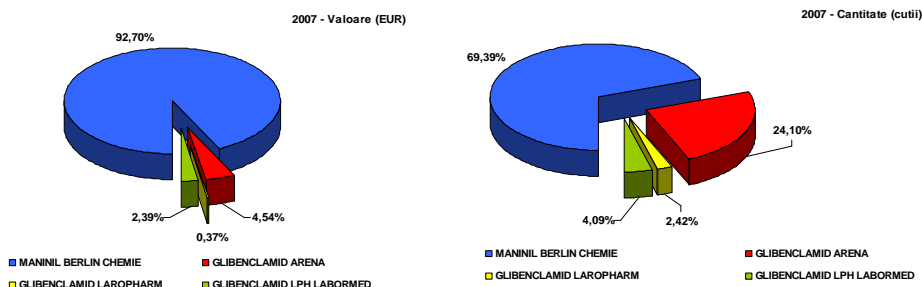


Figure 4. Glibenclamid sales in 2007

As for *glipizide* sold from 2004 to 2007, Pfizer produces **Glucotrol XL** (Pfizer), and sells it well (99%) in 2007. One can state the sales in **glipizide** sold only as simple tablets with no modified release diminished their share (**Minidiab, Glipizid LPH**) and practically are out of therapy today (SC Allofarm SRL, 2008).

Among **biguanides**, *buformin* represents ~ 9% of the total sales. For *metformin* there are more registrations (Figure 5). Berlin Chemie (Germany) kept an important market share (89,62% as value and 68,74% as volume) for the **Siofor preparations**. Introducing new generic product son the market meant a drastic decrease in sales in 2007. For 2007, larger shares were given to: Gedeon Richter, Zentiva and Worwag Pharma. Sicomed (taken over by Zentiva later on) changed the name of the product **Meguan** in **Diguan**; in 2005, sales for both products are registered (SC Allofarm SRL, 2008).

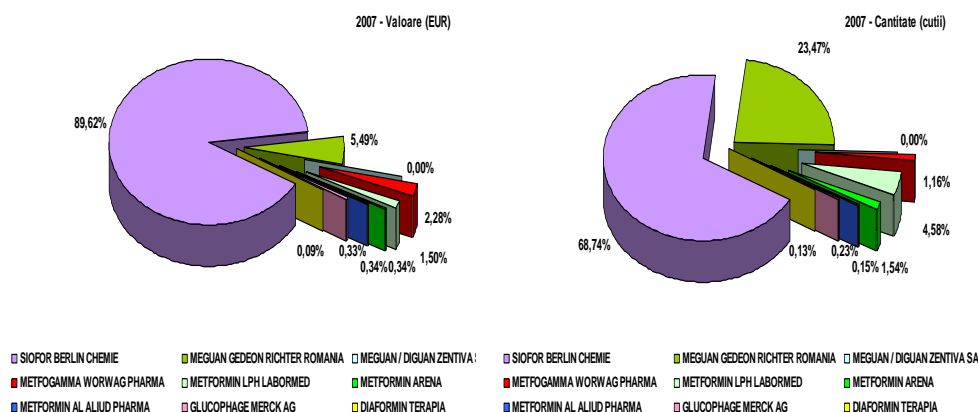
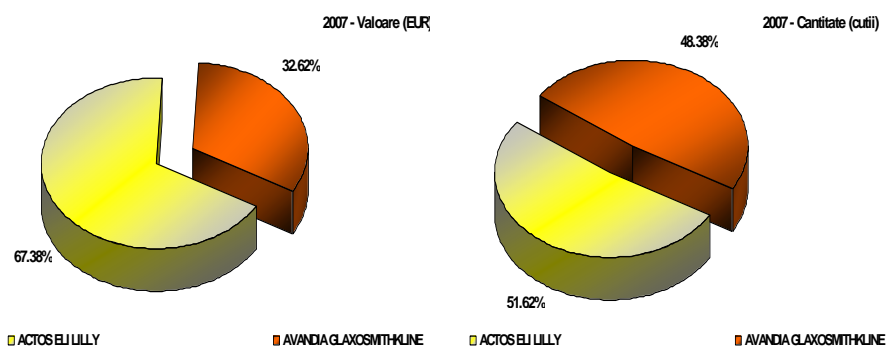


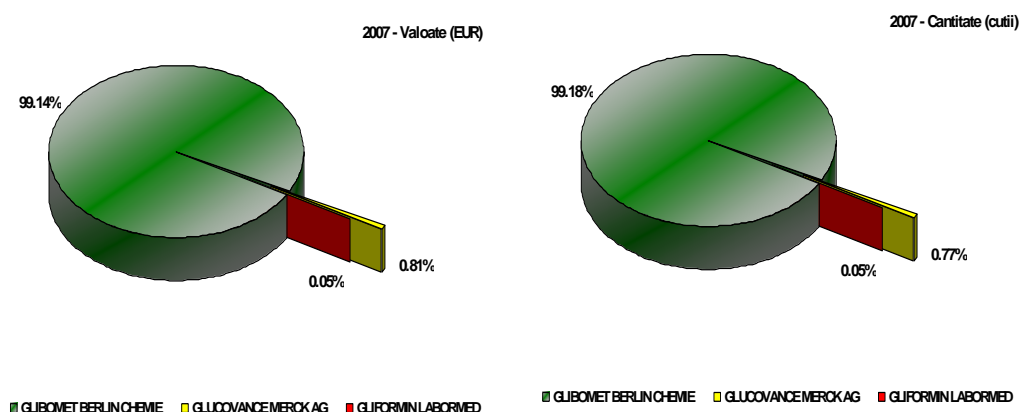
Figure 5. Metformin sales in 2007

Recently introduced in the therapy for diabetes mellitus, **thiazolidindiones** conquered 12,49% of the market value. In 2007, there were sold 136.549 boxes from both **glitazone** (2,6% market share), at a sum of 3,4 million Euros. The 70.000 boxes of *pioglitazone* represented 67,38% of the value of the market for this class ( see Figure 6) (SC Allofarm SRL, 2008).



**Figure 6.** Thiazolidindione sales in 2007

As for **fixed combinations**, in Romania, there were sold only products containing *glibenclamid + metformin* and **rosiglitazone + metformin**. In 2007, they represented 11,57% of the total quantity of ADO sold with a turnover of 4 million Euros (14,60%). Though the value for the sales of *Avandamet* (Glaxo) was 41,51%, the quantity sold represented only 10,94% of the volume of *fixed combinations*. (SC Allofarm SRL, 2008)



**Figure 7.** Sales of fixed combinations (glibenclamid + metformin) in 2007

As for the combination *glibenclamid+metformin*, Berlin Chemie (*Glibomet*) is the leader for the value and quantity, with over 99%. Neither Labormed nor Merck AG managed conquering more than 1% of the market with *Gliformin* and respectively *Glucovance* (Figure 7) (SC Allofarm SRL, 2008).

### **B) Sales forecast for the interval 2008-2010**

Market dynamics and the large number of molecules under advanced clinical research belonging to new or older structural classes do not allow for a long term forecast (> 5 years). The statistical methods chosen allow only a short term forecast (3 years). Trend estimates have been made possible with the software called Statgraphics Plus, that enabled the calculation of the confidence interval, of the correlation coefficient (R) and of the determination coefficient (R<sup>2</sup>), function of the statistical model obtained from the analysis of the value sales and quantitative sales of drugs, for the period 1999-2007. The sales forecast for the interval 2008-2010 took into account the statistical model with the lowest value of p (ANOVA test) (Chifu, 2008).

Another method used to forecast sales for the year O 2010 consisted in calculating the average modification index (IMM) in the interval 1999-2007 and applying it to the period 2008-2010.

In parallel, tendencies were represented graphically with the help of Microsoft Excel. The slope of the straight line (y) and the determination coefficient (R<sup>2</sup>) were calculated for each series of drugs presented below.

#### ***Tendencies estimated with STATGRAPHICS PLUS***

In the class of oral anti-diabetic drugs, the series of sales in value in Romania for the interval 1999-2007 indicates an exponential growth trend for *acarbose* and for the combination *rosiglitazone+metformin*. In the case of these preparations, the forecast for the interval 2008-2010 presents abnormal values, according to the statistical model provided by STATGRAPHICS PLUS. Values of p larger than 0,10 (interval of confidence < 90%) were obtained for *buformin*, the combination *glibenclamid + metformin*, *glipizid* and *gliquidone*, showing there is no statistical significance between sales value and time. The biggest sales in 2010 are forecast for *glimepiridum* (6,992 million Euros, p < 0,01), and the smallest for *gliquidonum* (621 thousand Euros), but the value of p > 0,10

shows that there is no statistical significance for the value of sales and time, too (Table 2).

**Table 2.**

Estimation of ADO sales values in Statgraphics as per classes, during 2008-2010

DCI	VALORIC			R		Forecast 2008		Forecast 2009		Forecast 2010	
	p	Interval incredere	Model	R	R <sup>2</sup>	Min	Max	Min	Max	Min	Max
ACARBOSUM	< 0,01	99%	Exponential	0,9217	84,96	NF	NF	NF	NF	NF	NF
BUFORMIN	> 0,10	90%	Liniar	0,5388	29,03	275.420	1.025.850	247.339	1.118.410	217.631	1.212.600
METFORMINUM	< 0,01	99%	Dublu Reciproc	0,9949	98,99	6.159.640	6.159.640	6.569.620	6.569.620	6.955.420	6.955.420
ROSIGLITAZONUM + METFORMINUM	< 0,01	90%	Exponential	0,9936	98,73	NF	NF	NF	NF	NF	NF
GLIMBENCLAMIDUM + METFORMIN	> 0,10	90%	Dublu Reciproc	0,6875	47,27	2.662.730	2.662.730	2.769.960	2.769.960	2.868.150	2.868.150
REPAGLINIDUM	< 0,01	99%	Curba S	0,9378	94,83	1.252.600	2.853.530	1.288.660	2.976.300	1.319.330	3.083.040
GLIBENCLAMIDUM	< 0,05	95%	Dublu Reciproc	0,8748	76,52	806.541	1.946.170	798.090	2.120.920	787.170	2.298.150
GLICLAZIDUM	< 0,05	95%	Liniar	0,758	57,46	1.233.830	4.260.850	1.226.820	4.740.470	1.213.260	5.226.650
GLIMEPIRIDUM	< 0,01	99%	Liniar	0,956	91,4	2.966.780	5.480.330	3.313.400	6.233.350	3.656.560	6.991.820
GLIPIZIDUM	> 0,10	90%	Dublu Reciproc	0,8446	71,33	1.921.270	1.921.270	1.951.680	1.951.680	1.977.760	1.977.760
GLIQUIDONUM	> 0,10	90%	Dublu Reciproc	0,7109	50,54	610.423	610.423	616.017	616.017	620.758	620.758
PIOGLITAZONUM	< 0,01	99%	Liniar	0,9596	92,08	1.734.550	3.041.750	198.970	3.446.320	2.120.550	3.853.720
ROSIGLITAZONUM	< 0,01	99%	Liniar	0,9262	85,78	923.387	1.933.470	1.008.840	2.181.300	1.092.110	2.431.330

Legend: NF – Improper estimate, according to the exponential model

The forecasts for ADO sales during 2008-2010 show an exponential increase for the *fixed combination rosiglitazone + metformin*. According to the statistical model proposed, values forecast seem abnormal and it is for this reason that we removed them from the present analysis. In the majority of DCIs (*acarbose, metformin, repaglinidum, glimepiridum, pioglitazone* and *rosiglitazone*), p value is smaller than 0,01; for *gliclazidum* p < 0,05. The largest quantities sold will be recorded in 2010, for the *fixed combination glibenclamid and metformin* (approximately 3 million units). *Gliquinone* has a decreasing trend and the volume of sales forecast for 2010 is about 100.000 boxes (see Table 3).

Table 3.

Estimation of ADO sales quantities in Statgraphics as per classes, during 2008-2010

	p	CANTITATIV Interval incredere	Model	R	R <sup>2</sup>	Forecast 2008		Forecast 2009		Forecast 2010	
						Min	Max	Min	Max	Min	Max
ACARBOSUM	< 0,01	99%	Square Root - Y	0,9126	83,29	162.448	69.137	18.736	86.523	21.319	106.047
BUFORMIN	> 0,10	90%	Reciproc - X	0,2568	6,6	73.680	242.484	71.823	243.444	70.249	244.271
METFORMINUM	< 0,01	99%	Reciproc - X	-0,9954	99,09	500.369	696.468	534.485	756.911	562.541	807.654
ROSIGLITAZONUM + METFORMINUM	> 0,10	90%	Exponential	0,9946	98,93	NF	NF	NF	NF	NF	NF
GLIMBENCLAMIDUM + METFORMINUM	> 0,10	90%	Liniar	0,6564	43,09	1.056.640	2.574.820	1.023.350	2.785.590	986.768	2.999.660
REPAGLINIDUM	< 0,01	99%	S-Curve	-0,9826	96,56	92.307	183.598	95.180	191.498	97.632	198.362
GLIBENCLAMIDUM	> 0,10	90%	Dublu Reciproc	0,5943	35,32	486.462	486.462	487.578	487.578	488.511	488.511
GLICLAZIDUM	< 0,05	95%	Liniar	0,7375	54,4	218.557	785.807	214.578	873.019	209.370	961.461
GLIMEPIRIDUM	< 0,01	99%	Liniar	0,9498	90,22	533.198	1.037.830	595.580	1.181.340	656.883	1.329.950
GLIPIZIDUM	> 0,10	90%	Dublu Reciproc	0,6043	36,51	238.908	238.908	240.414	240.414	241.683	241.683
GLIQUIDONUM	> 0,10	90%	Reciproc - Y	0,3627	13,15	106.423	106.423	104.258	104.258	102.810	102.810
PIOGLITAZONUM	< 0,01	99%	Liniar	0,9502	90,29	47.462	90.474	52.815	102.737	58.075	115.097
ROSIGLITAZONUM	< 0,01	99%	Liniar	0,9475	89,78	56.182	104.857	61.958	118.458	67.628	132.165

*Legend: NF – Improper estimate, according to the exponential model*

#### *Determination of the average modification index for each molecule*

The variation of the modification index in the class of quantitative series oral anti-diabetic drugs ranges between **0,95** (*gliquidon*) and **45,58** (*fixed combination rosiglitazone + metformin*). For the value series, the variation ranges between **0,96** and **59,40**, with extremes attributed to the same DCIs. Subunit modification indices can also be found with *buformin*, *glibenclamid* and *glipizid* within the quantitative series, and *Glipizid* within the value series (Table 4).

Table 4.

Modification indices within the series of oral anti-diabetic drugs

a	DCI	Quantity	Value
A	ACARBOSUM	1,29	1,93
B	BUFORMIN	0,96	1,01
B	METFORMINUM	1,05	1,18
C	AVANDAMET	45,58	59,40
C	GLIMBOMET	1,25	1,08
M	REPAGLINIDUM	1,06	1,06
SU	GLIBENCLAMIDUM	0,999	1,01
SU	GLICLAZIDUM	1,17	1,18
SU	GLIMEPIRIDUM	1,34	1,28

SU	GLIPIZIDUM	0,97	0,98
SU	GLIQUIDONUM	0,95	0,96
TZD	PIOGLITAZONUM	1,31	1,25
TZD	ROSIGLITAZONUM	1,09	1,05

Within the **sulfonylurea derivatives**, the strongest rising trend belongs to *glimepiride* and gliclazide. In accordance with the average modification index in 2010, the maximum volume of sales could about 1,9 million boxes (**IMM=1,34**) and respectively 955 thousand boxes (**IMM=1,17**) at a value of 8,5 million Euros (**IMM=1,28**) and respectively 5,3 million Euros (**IMM=1,18**).

In 2010, the volumes of sales of *buformin* could touch 178 thousand units, of *metformin* over 2,3 million units (**IMM=1,05**). According to statistical data, the market of **biguanides** could reach over 11 million Euros in three years from now on, of which 95% could go only to *metformin* (**IMM=1,18**).

In the case of *repaglinide*, the average modification index is identical for the two series (**1,06**). One can notice that for this DCI, the presence of only one brand brings about a stable, symmetrical growth, in tandem, in both series.

In the period 1999-2007, for *acarbose*, the average modification index (1,93) found for the interval in question can lead to the conclusion that sales should reach over 5,3 million Euros in 2010.

In the **thiazolidindiones class**, for both DCIs linear rising trends can be encountered. However, *pioglitazone* could register in 2010, 3,5 times more as value and a double volume as compared to *rosiglitazone*. In the quantitative series, the average modification indices of *pioglitazone* and respectively *rosiglitazone* are **1,31** and respectively **1,09**; while in the value, their indices are 1,25 and respectively **1,05**.

Recently introduced on the market, the fixed combination *rosiglitazone* + *metformin* underwent an exponential growth (average modification indices **45,58** and respectively **59,40**), that if, applied to the interval 2008-2010 would reach abnormal values.

For the combination *metformin* + *glibenclamid*, one can see that beginning with 2006 (introduction of the program of diabetes mellitus in open circuit pharmacies and introduction of more drugs on the list of free for charge medicines related to this program), it increased in number of units sold (**IMM=1,25**), though its value decreased (**IMM=1,06**). This



proves the "fight for price and, implicitly for the market" where generics occurred. This tendency is visible with most DCIs for which generics with reference prices have been included in the list of free of charge medication. According to statistical methods, this combination would be placed in 2010 among the first on the list of prescriptions, with a value of 2,9 million Euros and a volume of over 1 million units.

### Conclusions

In 2007, ADO market covered 46% of the value of the Romanian market for anti-diabetic drugs (27.236.501 EUROS) and 80,75% of its volume (5.256.334 boxes).

Most prescribed ADO classes as value represent: **sulfonylureas** (10.142.638 EUROS) and **biguanides** (7.082.360 EUROS).

The most significant increases for the interval under investigation related to **fixed combinations** (104,23% as value and 115,65% as quantity), **alpha-glucosidase inhibitors** (416,98% as value and 70,58% as quantity) and **biguanide** (51,86% as value and 78,83 as quantity).

The research reveals that Pareto's rule is strictly observed in respect with oral anti-diabetics, so that seven brands (20,59% of the total prescribed brands in 2007) represent 75,27% of the total ADO sales and the seven most prescribed brands represent 77,89% of the total sales in this segment.

In 2007, *Siofor* was the most often prescribed drug, with a value of 5.797.990 EUROS and 1.375.647 boxes.

The forecasts made with the help of the software Statgraphics Plus show that in Romania, in 2010:

- the biggest sales will be recorded for *glimepirid* and *metformin* (over 6,9 million Euros,  $p < 0,01$ ) and *gliclazid* (over 5,2 million Euros,  $p < 0,05$ );

- the largest volume of ADO will be reached for the combination *glibenclamid* + *metformin* (~ 3 million boxes,  $p > 0,1$ ), *glimepirid* (1,3 million boxes,  $p < 0,01$ ), and *gliclazid* (0,96 million boxes,  $p < 0,05$ ).

The calculation of the average modification index of the ADO series for the interval 1999-2007 led to the following conclusions:

- the highest IMM in the quantitative and value ADO series was obtained for the combinations *rosiglitazone* + *metformin* (45,58 and respectively 59,40);

○ within the quantitative series, subunit values can be found (showing decrease in sales) for *glipizid* (0,97), *buformin* (0,96) and *gliquidon* (0,95), while within the value series for *glipizid* (0,98) and *gliquidon* (0,96).

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**SOCIAL CLIMATE PERCEPTION BY THE POPULATION IN  
THE CZECH REPUBLIC  
(ALMOST 20 YEARS AFTER THE VELVET REVOLUTION IN 1989)**

**ŠÁRKA BRYCHTOVÁ<sup>1</sup>**

**ABSTRACT.** The article deals with the social climate perception by the population of the Czech Republic. It is written on the basis of a survey carried out in 2008 and it tries to interpret the opinion of the Czech population on the current development of the society from the economic, political and social perspectives. It tries to encompass the current atmosphere and certain intergenerational nuances of the views of the presented topic.

**Keywords:** the Velvet revolution, society development, social atmosphere, social inequalities, political culture, survey, respondents.

**1. Introduction**

Between 1948 and 1989 Czechoslovakia (a part of which contemporary Czech Republic used to be until 1993) was a communist country. All the democratisation efforts in 1968 were interrupted by the Soviet occupation. It is no wonder that 20 years later, in 1989, the whole society linked together in the cultivated fight against the common enemy – the communist regime that nobody believed in any more and almost nobody defended it. These events are known in the recent history as the Velvet Revolution or the Revolution of children. People were happy and full of expectations.

Today, despite indisputable achievements and transformation in the Czech society, the Communist Party is still the third strongest party in this country. Many people are in a bad mood, as it was expressed by one of the main leaders of the Velvet Revolution and later President of the Czech Republic, V. Havel. The meaningful part of especially the older generation thinks of the former communist regime rather with nostalgia than hatred. People are not willing to accept increasing (deepening) social differences, as Czech society was never been used to them. There are more and more

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people who do not believe politics and politicians. Some of them miss the communist ideals and ideology, some of them are attracted by the power of money. The situation here is similar to that of many other smaller nations that lived under the communist yoke for a long time. People are disappointed and this often leads to disillusion, scepticism, lack of faith in success, even cynicism.

Determinants of the social development undoubtedly include the social climate and the general atmosphere within the society. Due to the fact that the society has been reformed, transformed and perhaps even consolidated after November 1989, which is nearly twenty years, new problems have emerged and long-term problems have re-appeared. This, undoubtedly, represent a barrier to the further development of the society – and not only from the social perspective. The last decade of the 20<sup>th</sup> century has brought great social changes in the post-communist Czech Republic together with deepening social distances, which various groups of the population accept in a different way or have yet to get used to them.

This kind of development will, undoubtedly, continue. Despite all achievements, democracy and the capitalist society have been criticised both in Europe and worldwide and opinions of some intellectuals tend to be very sharp. For instance, according to the currently most quoted intellectual, Naom Chomsky (1995), ...*"What is called 'capitalism' is basically a system of corporate mercantilism, with huge and largely unaccountable private tyrannies exercising vast control over the economy, political systems, and social and cultural life...*"<sup>2</sup> However, it must be also said that N. Chomsky can see a great hope for the whole society in the current development, i.e. in becoming aware of humanity and in the appeal for human rights and real, meaningful democracy.

## 2. Survey<sup>3</sup>

Through the survey carried out during the spring of 2008 I have tried to understand and also clarify the social climate in the Czech Republic using questions that are, in my opinion, crucial. The whole questionnaire is more comprehensive – this article includes opinions of inhabitants from the intergenerational perspective.

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<sup>2</sup> Note: A quotation from his interview for the Red and Black Revolution. 1995.

<sup>3</sup> The surveyed group (survey performed by students): (*Selection based on age and economic activity; the article includes only the age structure perspective and the first two questions*).

Respondents

- Inhabitants of the Pardubický Region (Pardubice + small and medium-size towns of the Pardubický Region) – a part of east Bohemia.
  - 600 respondents in the following three age categories were addressed:
  - Under 40 years of age (200 respondents)
  - 41 – 60 years of age (200 respondents)
  - Over 60 years of age (200 respondents)
- Answers of the respondents are included in charts and tables.

- **Question No. 1: Do you feel disappointed by the development of our society after 1989? (%)**

	<b>Under 40 years of age</b>	<b>41–60 years of age</b>	<b>Over 61 years of age</b>
<b>Yes</b>	25	40	72
<b>Mostly yes</b>	35	10	10
<b>Mostly no</b>	21	38	5
<b>No</b>	17	11	2
<b>I do not know</b>	2	1	11

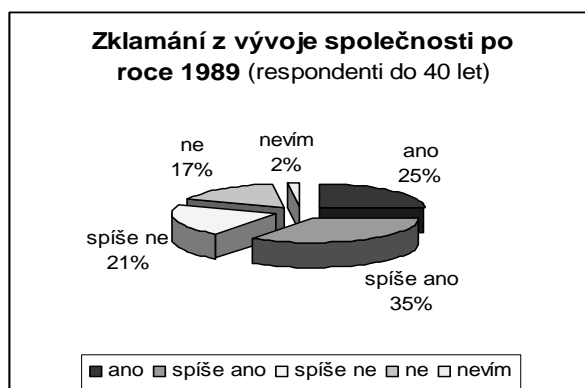


Chart 1<sup>4</sup> related to question No. 1: Disappointed by the society development (respondents under 40 years of age)

<sup>4</sup> Note to chart 1, chart 2, chart 3:

ano	Yes
spíše ano	Mostly yes
spíše ne	Mostly no
ne	No
nevím	I do not know

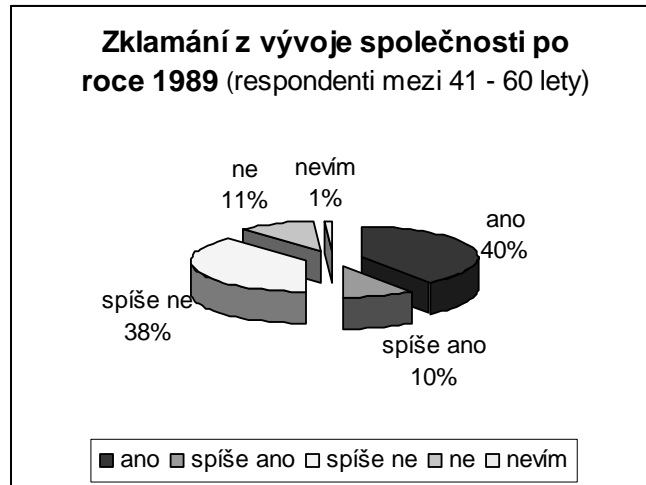


Chart 2 related to question No. 1: Disappointed by the society development (41 – 60 years of age)



Chart 3 related to question No. 1: Disappointed by the society development (over 60 years of age)

Disappointment of inhabitants basically increases with their age; senior citizens probably feel disappointment namely because of being permanently reminded of their age, losing an opportunity to be employed

and also because of the existing fear of the health care reform. In my opinion, they also dislike the ever-present criticism of the former regime under which most of them lived their whole lives and, to a certain degree, they perceive that as a denial of the life lived in an absurd economic and political system.

The younger generation also feels disappointment but usually because of different reasons. They try to achieve the standard of living and opportunities existing in the West and they see the leftist opinions and the existence of post-communist mechanisms as the disincentive of this trend.

The middle generation perceives the general vulgarity of the society and its political, cultural and social sphere as pressing.

It can be seen the criticism of high crime rate, corruption and fear of the increasing social inequality across the whole society.

Table1 contains the most frequent answers:

**Table 1 – the most frequent answers to the question:**

If you feel disappointment – what are the major causes?

Prevailing answers (%)	Under 40 years of age	41–60 years of age	Over 61 years of age
<b>50% and more</b>	<ul style="list-style-type: none"> <li>- Remnants of the communist thinking</li> <li>- Delays in adopting the Euro</li> <li>- High indebtedness</li> <li>- Growth of crime</li> </ul>	<ul style="list-style-type: none"> <li>- Loss of social securities</li> <li>- Poor morale</li> <li>- Breach of law</li> <li>- Unemployment</li> <li>- Vulgarity</li> <li>- Servility towards the West</li> <li>- Crime</li> </ul>	<ul style="list-style-type: none"> <li>- Creation of large social distances</li> <li>- Always hear in the media what a burden the elderly are for the society</li> <li>- Company frauds</li> </ul>
<b>25–49 %</b>	<ul style="list-style-type: none"> <li>- Social injustice</li> <li>- Corruption</li> </ul>	<ul style="list-style-type: none"> <li>- Corruption</li> <li>- Poor political culture</li> </ul>	<ul style="list-style-type: none"> <li>- Growing crime</li> <li>- Poor human relations</li> </ul>
<b>Less than 24%</b>	<ul style="list-style-type: none"> <li>- Reforms not achieving their objectives</li> </ul>	<ul style="list-style-type: none"> <li>- Drop of education standard</li> </ul>	<ul style="list-style-type: none"> <li>- Non-objective assessment of the previous regime - <i>as if there was no life under the socialist regime</i></li> </ul>



• **Question No. 2: What do you consider to be the biggest problem of the current Czech society?**

- a) Economic
- b) Political
- c) Social

**Table 2 – The most frequent answers regarding**

**a) ECONOMIC**

<b>Prevailing answers (%)</b>	<b>Under 40 years of age</b>	<b>41–60 years of age</b>	<b>Over 61 years of age</b>
<b>40% and more</b>	<ul style="list-style-type: none"> <li>- Corruption</li> <li>- Insufficient economic growth</li> <li>- Growth of state indebtedness</li> </ul>	<ul style="list-style-type: none"> <li>- Poor management of state funds</li> <li>- Financial frauds</li> <li>- Unemployment</li> <li>- Growing social distances</li> </ul>	<ul style="list-style-type: none"> <li>- Loss of social security</li> <li>- Fear of the (results of ) health care reform</li> </ul>
<b>20–39%</b>	<ul style="list-style-type: none"> <li>- Economic standard still considerably lower than in West European countries</li> <li>- Grey and black economy</li> </ul>	<ul style="list-style-type: none"> <li>- Constant price increase</li> <li>- Corruption</li> <li>- Social securities are not guaranteed</li> <li>- Little money for health care – fear of the future</li> </ul>	<ul style="list-style-type: none"> <li>- Company frauds</li> <li>- Feeling of injustice - the elderly are not necessary from the economic perspective</li> </ul>
<b>Less than 20%</b>	<ul style="list-style-type: none"> <li>- Unemployment</li> <li>- Reforms not fulfilling their objectives</li> <li>- Various opinions (ranging from low salaries up to poor business conditions)</li> </ul>	<ul style="list-style-type: none"> <li>- Manner of privatisation</li> <li>- Incorrect relationships</li> <li>- Lack of business ethics</li> </ul>	<ul style="list-style-type: none"> <li>- Price increase</li> </ul>

The inter-generational comparison from the economic perspective is striking – whilst the younger generation criticises slow and insufficient reforms, growth of indebtedness and too slow catching up of the West, the middle generation still goes back to the issue of privatisation and financial frauds of the 1990s and is afraid of unemployment and growing social inequalities. The generation of senior citizens also considers the loss of social security and the current health care reform of which they are afraid as the most pressing.

**Table 3 – The most frequent answers regarding****b) POLITICAL**

<b>Prevailing answers (%)</b>	<b>Under 40 years of age</b>	<b>41–60 years of age</b>	<b>Over 61 years of age</b>
<b>50% and more</b>	<ul style="list-style-type: none"> <li>- Political culture</li> <li>- politicians are interested only in their careers</li> <li>- Behaviour of politicians</li> </ul>	<ul style="list-style-type: none"> <li>- <i>Boorish</i> nature of the political scene</li> <li>- Politics is a <i>rat race</i> - utilitarianism</li> <li>- Inability of politicians to reach agreement</li> </ul>	<ul style="list-style-type: none"> <li>- Political culture</li> <li>- Behaviour of politicians, in general</li> <li>- Vulgar behaviour of politicians</li> </ul>
<b>25–49%</b>	<ul style="list-style-type: none"> <li>- Corruptive environment</li> <li>- Failure of political parties to follow their programmes and promises</li> <li>- Increasing preferences of left-wing parties</li> </ul>	<ul style="list-style-type: none"> <li>- Pointless arguments, general lack of respect of politicians for the public and the lack of mutual respect of politicians for each other</li> <li>- Corruption</li> </ul>	<ul style="list-style-type: none"> <li>- Inability of politicians to reach agreement</li> </ul>
<b>Less than 24%</b>	<ul style="list-style-type: none"> <li>- Remnants of communist thinking</li> </ul>	<ul style="list-style-type: none"> <li>- Acute polarization of political parties</li> <li>- Politicians are more interested in profiteering than in real political work</li> </ul>	<ul style="list-style-type: none"> <li>- Non-objective assessment of the previous regime - <i>as if there was no life under the socialist regime</i></li> </ul>

Table 3 indicates that responses across the whole age spectrum are really clear (because of that the second line is set to 50%). The standard of political culture has been pointed out for several years; the situation before and after the key Parliament elections in 2006 has further culminated and due to that the answers of respondents are not surprising. Moreover, pointless allegations and causes published in the media diminish the trust in political ethics. A new term has emerged in the society – a *boorish nature* of the political scene. This opinion is basically identical in all age groups, everyone can agree on vulgarity and a poor political culture. However, regarding opinions on those bringing this *virus* to the Czech political scene – all respondents are of completely antagonistic opinions (not contained in the table).

**Table 4 – The most frequent answers regarding**

**c) SOCIAL**

<b>Prevailing answers (%)</b>	<b>Under 40 years of age</b>	<b>41–60 years of age</b>	<b>Over 61 years of age</b>
<b>40% and more</b>	<ul style="list-style-type: none"> <li>- Corruption</li> <li>- Growing social distances</li> </ul>	<ul style="list-style-type: none"> <li>- Crime and its insufficient sanctioning</li> <li>- Moral decline</li> <li>- Belittlement of social values</li> <li>- Unemployment</li> <li>- Vulgarly</li> <li>- Division between rich and poor</li> </ul>	<ul style="list-style-type: none"> <li>- Crime</li> <li>- We always hear in the media what a burden the elderly are for the society</li> <li>- Lack of respect for anything or anyone</li> <li>- Fear of price increase of drugs and health care, which they paid all their lives</li> </ul>
<b>20–39%</b>	<ul style="list-style-type: none"> <li>- Rroma/ ethnic minorities issue</li> <li>- Crime</li> <li>- Communist thinking</li> </ul>	<ul style="list-style-type: none"> <li>- Only impudence has the “green light”</li> <li>- Values are turned upside down</li> <li>- Little development of social culture</li> <li>- Everything is considered only with respect to its monetary value</li> </ul>	<ul style="list-style-type: none"> <li>- Poor human relations</li> <li>- General moral decline</li> </ul>
<b>Less than 20%</b>	<ul style="list-style-type: none"> <li>- Social benefits are too high</li> <li>- Unemployment</li> <li>- Money as a measure of social respectability</li> </ul>	<ul style="list-style-type: none"> <li>- Drop of education standard</li> <li>- High social position = power + corruption</li> <li>- No one can become rich by earning it by the sweat of their brow</li> </ul>	<ul style="list-style-type: none"> <li>- Poor national consciousness</li> <li>- Limited possibilities for senior citizens to be employed</li> </ul>

There are differences in the perception of events within the society corresponding to the age of respondents. Senior citizens feel the lack of morale, human relationships, ethics, solidarity and national consciousness, patriotism, relationship to home and values in general.

The middle generation also points out social stratification of the society, values turned upside down, low development of social culture, impact of money and social prestige, crime and vulgarity.

The younger generation is aware of the growing social distances, corruption (this issue is present in all tables in high percentage), they also perceive the Roma issue as pressing and they hold the previous regime responsible for the current negative phenomena.

### 3. Conclusion

Finally, it must be said that most respondents criticise the current situation, which, as I have to point out, is, to a certain degree, also caused by *rather known Czech scepticism*. However, the responses have a rather high information value regarding the overall climate within the society. All answers concerning various *aspects* of the social atmosphere clearly and notoriously indicate corruption, criticism of the political culture, standard of social behaviour and ethics in general; there is a fear of growing social distances to which the older generation is not used to – this is the most obvious when looking at the current problems of the Czech health care.

In the following part of the text, I would like to outline the conclusions that can be also *read between the lines*:

- The answers indicate marked inter-generational differences
  - Angry senior citizens
  - Omniscient (and therefore rather limited) middle generation despising both regimes
  - Confused young generation
- The nation has probably not undergone through a process of general self-reflection, reflection of its history, mentality and formation of its mentality
  - Certain polarization of political and social life (inability to make a compromise)
  - A really objective assessment of the former regime is probably necessary
  - There is an absence of generally accepted personalities and personalities in general
  - Certain *folklore* of disregarding others prevails – they are perceived as „them“– adversaries (e.g. politicians, but this atmosphere penetrates the thinking of the whole population – who is to blame...)
  - Absence of ideals and trust in honest path

And finally, I would like to present an interesting quote written by Jung (1995) which seems timeless: *People enter the second half of their lives completely unprepared – or are there any schools, not only universities*

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*but also colleges, for 40 years old people which would prepare them for the years to come with their demands as basic schools and universities introduce young people to the knowledge of the world and life? No, we enter our life afternoon unprepared and, what is even worse we do that proceeding the false assumption of our former truths and ideals. We cannot live through our life afternoon using the same programme which we used in our life morning because what we have enough of in the morning, we are short of in the evening and what was true in the morning, it will not be true in the evening<sup>5</sup>.*

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## THE COORDINATES OF THE FINANCIAL POLICY

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**ABSTRACT.** The importance of the financial policies is more than evident in the context of the nowadays financial crisis. We understand the financial policy as a process of conciliation of the different possible ways to constitute and use monetary funds taking into account their implications for the socio-economic life of the community administered by an authority. This paper analyse the coordinates of the financial policy, focusing on its role and objectives, but also on its instruments and restrictions.

**Keywords:** finance, public finance, policy, public revenues, public spending, financial policy

### 1. Some Preliminary Observations

One of the authors (Giurgiu 1995) presented, his position in what concerns the meaning of the word “finance” which we regard as being an ensemble of monetary funds, flows through which these monetary funds are formed and consumed and the formalized in law social interactions generated by their movement. At that point we stated that the word ‘finance’ is a generic term which covers several concrete (operational) forms of manifestation having the same common content but justifying their separate existence by certain particular features, generated by the specific underlying socio-economic circumstances. All these forms may be ordered according to several criteria. The most common classification criterion would be the purpose for which the monetary fund is set up. From this point of view, we maintained that the multitude operational forms of manifestation of finance could be classified into two large groups which are the public finance and the corporate finance.

Public finance plays an essential part in the adjustment of the general economic mechanism through a complex network of interdependences

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between public revenues raising and spending. Given the way they function, we are led to regard these interdependences as a system and every system implies a functioning mechanism.

The different meanings with which the concept of ‘mechanism’ is used are clarified in the economic literature. In connection with this aspect, we would like to turn to an observation from a work published more than twenty years ago, which nonetheless holds true to a large extent even nowadays. At that point, it was underlined the fact that in order to respect the accuracy of the analysis and the rigor in expression two meanings of the word ‘mechanism’ should be taken into account. First, the concept is used to make reference to a correlated ensemble of financial interactions thus acquiring the meaning of ‘system’. Second (but simultaneously), the concept also denotes the body of rules that govern the transformation of the funds’ utilisation effect into positive financial results. The book we have cited (Giurgiu, 1995) discusses the financial mechanism of the firm and consequently refers to the transformation of the firm’s funds utilisation effect into profit.

Returning to the object of our research we put forward the idea that in the public finance area too the concept of ‘mechanism’ should be dealt with by taking into account its two meanings: correlated ensemble of public funds, monetary flows and financial relations, from which derives the system character of public finance, but also a body of regulations which govern the levy and spending of public revenues so as to stimulate general economic growth and the improvement of the entire population’s living standards. As we aim at identifying the way in which processes in the area of public finance ultimately influence the economy and the society we will focus to a larger extent in our study on the second meaning of the term ‘mechanism’, which rather bears more resemblance with the biological concept of ‘organism’.

The regulation that governs public revenues collection (in most cases imposed by means of law coercion so according to the public authority’s standpoint) as well as the purpose and manner of spending the public funds, which are established by those who administer the community at different moments, represent by nature the result of a specific way of thinking, a specific attitude towards the public needs’ assessment (to what extent these needs are real and adequate) and most important, satisfaction. It follows that the construction of the public finance mechanism is strongly influenced by the underlying financial policy.

Due to the fact that the firms' needs (whether they are industrial, commercial or banking firms) do not always perfectly match the interests of the entire collective in which the multitude of firms conduct their business, corporate finance in its turn reveals its essence and plays its part through a mechanism, more or less correlated in what concerns its functioning, with the mechanism of public finance.

## **2. Financial Policy**

### **2.1. As to the Concept of Politics**

The object of our remarks is represented by the financial policy, but we shall not tackle it without shortly calling to mind the definition of the term 'politics'. The body of literature referring to the concept of politics is considerable in size: beginning with Plato continuing with Aristotle and St. Augustine's writings as well as the work of Machiavelli, Hobbes, Hume, Locke, Knight, Montesquieu, Rousseau and arriving at Samuelson, Aron and Buchanan, to mention just a few personalities who have looked into the content of this ancient human occupation. We thus have at our disposal a vast and profound analysis of the term's signification. There are a great number of definitions, not necessarily in contradiction with one another. However, according to the objective of the desired demonstration, each of them emphasises certain aspects of the subject while not taking into account the others. Providing an analysis of these definitions is beyond our competencies and the scope set for the present study. Considering the demonstrations to follow we shall go over some very short definitions which in our opinion best satisfy the requirements of the present paper. Beforehand we would like to call to mind a very old adage, credited by everyone throughout history and thus having become an axiom, which maintains that politics exist because social ensembles need to be governed.

In a relatively recent treatise on political ideas of the twentieth century it is put forward that politics represents the exercise of the decision-making power (Chatele and Pisier, 1994: 511). Somehow similarly, at least in what concerns the content, the Nobel Prize laureate in economics, Buchanan (1997: 21), defines politics as a process of differences reconciliation. The exercise of the decision-making power, even within a process of differences reconciliation, starts from certain interests or to be more specific, from certain standpoints regarding the safeguard of the collective interest. This translates into highlighting the existence of various types of interests. From this point of view, politics cannot be other but subjective. As Buchanan



notes, there is no such thing as a neutral politics because collective interest takes shape as a result of the reconciliation of differences and within this process there is always a dominant interest that prevails. The entire history of mankind, and especially present times, proves too well this state of affairs. So it is always about seeking to satisfy an interest, even if those who draw up a certain policy present it as holding good for the entire collective (the entire nation). In this case, everyone's interests are inevitably assessed through this groups' particular manner of assessment.

Beyond the non-neutral character of politics, the exercise of decision-making power or the process of reconciling the differences (between different interests or different standpoints concerning collective interest aggregation and satisfaction) must comply with certain rules in order to attain its revealed or unrevealed goal. Were we not afraid to generate confusion with the idea of the financial mechanism that we put forth above and upon which we will insist in our research we would be tempted to advance the idea of the existence of a policy framing and implementation mechanism.

The set of rules which governs the process of policy designing and implementing should cover aspects like: defining the specific field of human action taken into account, setting forth the policy's objective, defining the levers used to attain the objective, the policy's time-span, the means used to measure the environment's reactions and so on. Usually, we refer to policy in general, but consciously or not, we always have in mind a particular, actual form of policy, that is, a specific area that will be impacted by the policy. We situate ourselves in the financial area of human activities. From this point of view, we cannot continue without calling to mind an extremely suggestive statement made in one the books, recently translated to Romanian, of the Nobel Prize winner in economics, Stiglitz (2005), who observed upon a certain type of financial policy that 'While a tax system model represents a perennial source of controversy – point of view concerning the equity-efficiency ratio equilibration, a compromise difficult to reach – there is a widespread consensus on five principles that characterize a good tax system: fairness with its two aspects, efficiency, simpleness in its administration, flexibility and transparency' (Stiglitz and Walsh, 2005: 307-308).

## **2.2. Financial Policy and Its Instruments**

After choosing a definition of the concept of politics in general, it is a lot easier for us to attempt a definition of the financial policy. Therefore, we believe that financial policy may be defined as a process of conciliation of the different possible ways to constitute and use monetary funds taking

into account their implications for the socio-economic life of the community administered by an authority.

The same Nobel Prize laureate, Stiglitz (2005), notes that financial policy, which he names fiscal policy, targets the three chief objectives of macroeconomic policy: stimulating economic growth, a low and stable inflation and full employment. There is a number  $n$  of alternatives to constitute and use monetary funds, but they present different implications and especially a contradictory manifestation in time of these implications. Designing financial policy is dramatic, as its present positive effects may turn, sometimes unexpectedly fast, into negative effects. The differences' conciliation process requires extremely painstaking research and most of all risk taking, risk being expressed as the probability of occurrence of the unwanted events, or nobody can guarantee that the disrupting events could not occur in the considered time span when framing a certain financial policy. The predictability horizon of financial policy – horizon being characterized by a sufficient degree of credibility – is relatively narrow and inevitably exposed to risk factors.

Certainly, financial policy is particularized to areas of the financial domain which are as narrow as possible: tax policy, public expenditures policy, budgetary policy, customs policy, and so on. The elaboration of each type of financial policy is performed, or should be performed, correlatively, that is by taking into account their aggregate effect on the socio-economic environment and the environment's reaction speed along with the inherent implications for the future financial flows. Considering the ever increasing speed of developments within the environment (in connection with this aspect, one should mind the ever closer connections between the internal and the external environment) we realize the considerable difficulty of designing a successful financial policy 'a la longue'. Although the information technologies and the present technical support allow the creation of a considerable number of scenarios, each of them has a certain specific probability of success and failure. Therefore it is a utopia to discuss about financial policies with a level of certainty of one hundred percents. This uncertainty is also amplified by the fact that a financial policy is always designed by various echelons of the political scene.

These various standpoints have during certain time intervals a higher degree of validity, and during others a lower degree of general acceptance. Even for states with a totalitarian political regime the inherent disputes within the ruling group (which only seems to be united) make it impossible

to elaborate a financial policy that reflects the national interest on long time intervals. The recent history of the East European countries fully supports the previous statement. All the above suggest that we situate ourselves in the public finance area.

If until the end of the 18<sup>th</sup> century and even during the 19<sup>th</sup> century, the effect of the public funds formation and spending on the socio-economic life was overlooked, nowadays, no country whatsoever would adopt this simplistic point of view in relation to public finance. The constitution and spending of public funds are performed by carefully taking into consideration their multiple and contradictory implications for every aspect of human activities. For this reason, the main instrument of the financial policy is the financial lever.

Public funds are formed through a large variety of input flows (revenues) and output flows (expenditures). Even in the situation where all types of flows would only have as main purpose the formation and use of public funds (so as to ensure the functioning of the state apparatus in its most simplistic dimension), without having any objective besides the strictly financial ones, they would still exert influence generated by their direct effects on the taxpayers' private finance as well as by their indirect effects on the public funds receivers' revenues. If a monetary flow and the connected financial relation are also assigned to some other objective, generally not pertaining to the financial field, then we can speak about a financial lever. It represents a direct intervention of the State in the economy, because through the mere movement of the monetary flows, certain tendencies and behaviours within the socio-economic life are encouraged or discouraged (usually, each state claims that by doing this they seek to increase the general welfare).

According to Vacarel (2000: 97), the additional objective not pertaining to the financial area must have a well defined role in the socio-economic life, which is to organically integrate into the functioning mechanism of that specific area of the socio-economic life. Only under these circumstances one can speak about a financial lever.

Nowadays' reality proves that almost all (we do not use the word 'all' so as not to be accused of exclusion) monetary flows target, from the beginning, other objectives than the mere formation or spending of a public fund. As a consequence, the area of financial levers matches the area of all monetary flows.

In our understanding, a monetary flow acquires the quality of financial lever through the financial policy decision-making, so through a subjective

act of leadership. This is the reason why we have considered the financial lever, above, to be the chief instrument of financial policy. Hence the main role belongs to the financial decision-making, that is, to the fundamental element of the financial policy.

There are a large number of studies concerning the financial levers within the economic literature to the point that financial levers are regarded as synonym of financial relations as such, reaching thus a higher degree of objectivity. Nonetheless, we must distinguish out of this multitude of monetary flows the financial levers which are used the most and which generate the most significant effects in what concerns stimulating and encouraging certain activities or social groups, or on the contrary, in the sense of restraining or discouraging them.

Financial levers as instruments of financial policy form a system which encompasses economical-financial levers (the wage lever, the price lever and so on) and financial-monetary levels (the interest rate, subsidies, foreign exchange rate, taxes and so on).

Certainly, within this system it is desirable that these levers complete each other, and if one of them does not produce the expected effects anymore or annihilates another's effects it should be excluded or replaced. Moreover, financial levers must be elastic and flexible enough to adapt to the socio-economic life's dynamics.

In this respect, the importance of the financial levers becomes up to date in an abrupt manner, in the context of the financial crisis we are going through, and the advocate of State' intervention in the economy, John Maynard Keynes is nowadays probably the most cited economist. The free market (whose virtues we regard as being beyond any shadow of a doubt) does not hold the blame for the present financial crisis, but the poorly regulated market and we refer here especially to the financial market. Thus, as a solution of last resort, the state has been urged to intervene whether directly or indirectly, brutally or more subtle, but engaging all the instruments at its disposal. The interest rates have been cut several times to incredible levels (0.3% in Japan or 1% in USA) and with unprecedented speed. Moreover, on October 8<sup>th</sup> 2008 this type of measure has been undertaken in a coordinated manner and simultaneously by the seven most important central banks worldwide (Federal Reserves, European Central Bank and the National Bank's of Canada, England, Sweden and Switzerland). In addition, massive flow of liquidities have been injected into the system, some large banks and renowned insurance companies have

been nationalised (certainly, only a temporary measure – we would like to believe), exchange rates have been supported for some currencies and the list continues.

This crisis has unveiled a whole arsenal of financial levers at the State's disposal – some long forgotten in the western countries – as a solution of last resort to stabilise a financial system on the verge of collapse. As a consequence, the intervention tools are there, the only problem being to use them in a coordinated way, within a realistic and rational financial policy, so that the difficult task of saving the financial system can be successful.

### **2.3. Some Observations Concerning the Financial Policy Design Mechanism**

Practice has build (we wouldn't like to say 'intuitively', but we dare to say 'by doing and learning') a system of rules concerning a financial policy's design. Even if it does not make the object of an extensive theoretical treatise, this system of rules is being used with more or less consistency according also to the creative potential of the ruling parties. As we all know, any financial policy is designed with the purpose of attaining a certain objective outside the financial area through a series of financial levers, which usually have a financial nature and function within a system of restrictions. These restrictions are extremely well determined by the degree of socio-economic development as well as by the complexity of the international socio-economic relations for each moment in time.

When choosing the object of a financial policy, certain logic must be observed. We have developed this observation from a statement made by the theorists of the systemic analysis, statement which has become an axiom and according to which political activity can be reduced in essence to the scientific administration of a section of the social life.

We call for rationality when choosing the objective in two respects. On one hand, the objective must integrate itself into the general socio-economic realities specific to one country at a certain point, and on the other hand, it must be sensitive to the effects of the financial levers selected for the intervention. In what concerns the first aspect, we not only have in mind the correlations with the direction and rhythm of factors determining the socio-economic reality, but also the feasibility of the proposed objective, precisely under the considered circumstances. In order to exemplify the aspects we presented above, we call to mind the famous 'task', formulated about two decades ago in a world which has since become obsolete, making

reference to the Romanian industry's obligation to provide high quality products "with at least 5% above the world level".

The difficulty, to put it this way, of establishing the objectives of the financial policy is still present in the current transition period. Starting to privatize state owned companies, without previously performing a thorough overhaul of the industry, led to a great number of fiascos in this process and to a surge in debt to the state budget. All these had a negative influence on the efficiency of the domestic economy and through this the population's standard of living. Certainly, those difficulties may also find an explanation in the numerous hardships beyond the economic sphere, but we shall take a closer look at them when we bring into discussion the third element of the financial policy, namely the system of restrictions.

In what concerns the sensitivity of the financial policy object to the action of the financial lever selected for intervention we observe that, in an important number of cases, the objective which has been properly set does not suffer, at least in theory, any alteration although the lever is in action. Tax laws allow firms to take advantage of an accelerated depreciation system for the fixed assets. However, a rather small number of companies actually resort to this beneficial law provision and the situation is similar with regard to provision formation. A more detailed examination of the matters leads us again to the deficiencies in the system of restrictions within which any policy is designed.

The discussions regarding financial policy focused in general on the financial levers. Although some of the formulated definitions do not come very naturally (though not explicitly, one of the authors quoted above admits state intervention through administrative measures), and others imply in an unrealistic manner an 'harmonization' of the economic agents' interests with the public interest, all those who published in this field agree that a category may play the role of a financial lever only if besides the main financial objective (the constitution and spending of monetary funds) it is also assigned another objective which is usually outside the financial field and which is vested with a certain public interest.

Basically, as we pointed before, all the monetary flows may play the role of financial levers, meaning they may be related with desirable events from all the other human activity areas. In our opinion, the problem is to find in each case that monetary flow which is in the closest relation with the pursued objective. We could compare the issue above with the relation between the variation of the independent variable (in this case the monetary

flow) on one hand, and on the other hand, with the variation of the dependant variable (the pursued objective), from the correlation field. Certainly, this correlation cannot be imagined, but it has to result from several recurrent experiments as well as from the in depth study of the circumstances in which the desired effect of resizing the monetary flow will manifest itself.

Halfway through the previous decade, aiming at developing the areas under strain, the state granted fiscal privileges for the imports of raw materials in order to stimulate different manufacturing activities and thus creating new jobs. Unfortunately, the financial lever did not function because after performing several simple operations (such as repackaging) the imported raw materials were directed towards other areas of the country; the conditions under which the fiscal privileges were granted had not been properly formulated.

The flat tax implemented in 2005 represented a bold step forward which considerably increased the level of fiscal competitiveness of the country and moreover, it did not result in a decrease of the budgetary revenues as various Cassandra had predicted. This measure is actually very popular among the East European countries (and not only) to the point that some countries have brought the flat tax to levels characteristic to tax havens (for example Bulgaria, which implemented in 2008 a flat tax amounting to 10%). Nevertheless, the positive effects did not reach their full potential as the tax system as whole had not been thoroughly reformed in order to become more simple and transparent.

There are several examples of designing in an improper manner the functioning of some financial levers which had been set up so as to benefit the socio-economic life.

Establishing the objective of the financial policy as well selecting the financial levers aimed at reaching it takes place in the context of an extremely complex system of restrictions made up not only by the socio-economic conditions but also by socio-psychological conditions reflected by a particular standpoint and a certain behaviour of all the individuals in our societies.

The economic conditions represented by the structure of the national economy, the level of development of each sector, the competitiveness on the external markets and the degree of penetration of these markets, the level of human resources' qualification, the level of research and development and so on, though complex through the multitude of interrelations, may be quantified accurately enough so as to constitute a system of restrictions within

which formulating as properly as possible the objective of a certain financial policy may be possible with the lowest risk coefficient.

We believe that starting with the final year of the previous decade and continuing with this decade of the new millennium, the economic coordinates of the adopted financial policy (also perhaps as a result of the pressure exerted by the IMF and the World Bank) were in general properly assessed and taken into consideration.

Concerning the social environment, the matter is more sensitive: the desired middle class being still in the process of formation and at the same time, a tendency of polarization into an ever richer elite and a considerable segment which slides towards the subsistence level being noticeable. Such social conditions exert a significant pressure, more and more stressful, upon those in charge with designing and implementing financial policies.

In this respect, it is relevant the recurrent postponement of the fiscal obligations of the defaulters. The fear of potential social turbulences, resulted from the bankruptcies of dubious debtors, forces the authorities to adjust in process the initial financial policy. On one hand, the firmness needed to implement the adopted policies is not kept at sufficient levels, and on the other hand, viable alternatives are not come up with (working abroad was not imagined by authorities, but it was 'invented' by individuals wanting a stimulating work place, and finally with much happiness it was also adopted by authorities, especially as a result of high foreign currency inflows). The expectations of the population (a large part of which contributing to the public budget) are often influenced by what they see abroad, the living standards of other nations. These expectations are not yet in tune with the efforts that would be needed in order to satisfy them. The transition from the centralised economy to the market economy has cast a shadow – at least at this stage – on the correlation between effects and efforts, the general mindset being much corrupted by an exaggerated focus on the effects. Under such circumstances, the pressure with which the decision makers within the financial policy area have to cope is at the same time stressing and inevitably disruptive. At the same time, it is mandatory to take into account the expertise – in all its aspects – of the decision makers within the financial policy area.

History, both ancient and recent, shows that the success of a financial policy depends to an extremely large extent on the quality of those who formulate and implement it; here we refer not only to the professional



expertise, which can be tested easily and with sufficient accuracy, but also to their moral profile, their resistance to any kind of pressure and temptation.

The socio-psychological conditions, as an element of the system of restrictions in which the objective of the financial policy is chosen and the intervention levers are selected, are not only extremely difficult to measure and quantify, but also hard to predict (their dynamics displays not just a more and more rapid rhythm, but also deterring ups and downs). Therefore, the need to create a multitude of scenarios arises. Easy to obtain with the aid of the information technologies, they are difficult to explain to the layman taxpayer who is in the end the provider and receiver of the national funds and who is ultimately in a democratic system, from his position as a voter, the final decision maker of any policy, especially in the cases in which the policy aims at distant objectives in time which require tough present sacrifices. In such conditions, transparency and the skill to explain with consistency, coherence and in an easy to grasp manner for the voting masses become the fundamental conditions for the success of any policy.

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## TRENDS OF COMMUNITY EXPENDITURE ON COMMON AGRICULTURE POLICY, INCLUDING THE AGRICULTURAL ENVIRONMENTAL MEASURES

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**ABSTRACT.** The paper presents the most important events of the Common Agriculture Policy (CAP) development, since the time of its enforcement (1958) until the '90s, evolution that reflects the existence of the differences and sometimes of the conflicts resulted along the European integration process. One of the most debated issues was and it is still the one regarding the budget. The budget remains a bone of contention among members of the EU, even though the CAP's budget is guaranteed until 2013. In fact, it could potentially be reviewed as early as 2008 or 2009 because some states have argued that agriculture consumes too much of the budget. The CAP budget currently comprised 54.7 billion Euros (71.7 billion dollars) per year, of which 40 billion are spent for the first pillar, i.e. mainly direct payments. However, the share of the CAP in the EU budget is regularly decreasing: today it represents 43 percent of the overall budget while in 1984 it represented 70 percent of the overall budget. We considered the development of the CAP should always take into account the principle of sustainable development, with special focus, apart the environmental one, on the social and economic aspects. Agri-environmental measures could be the answer to some problems CAP is nowadays confronted with. These measures provide for payments to farmers in return for a service – that of carrying out agri-environmental commitments that involve more than the application of usual good farming practice. This CAP trend for environmental support which has started in few Member States in the 1980s is also reflected in the 2009 budget draft proposal.

**Keywords:** costs, budget, agriculture, policy, environment

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## **1. Introduction**

In the specialty literature, there are two significant plans in the evolution of the Western-Europe agriculture. These plans are famous both by the names of their initiators and by their effects: the Marshall Plan and the Mansholt Plan. At the beginning of 1947, George Marshall organized a team of experts, led by George Kennan (the initiative of elaborating the Marshall Plan belonged exclusively to the State Department, and it was supported both by President Truman, and by de Arthur Vandenberg, the leader of the Senate majority). Its task was to develop an ambitious strategy for the economically redress of Europe. In this context, there was elaborated the European Rehabilitation Plan, known especially as the Marshall Plan. By its connotations of economic rehabilitation, the American financial support helped the Western Europe countries to shorten the reconstruction period which ended, in most specialists' opinion, in 1949, when most of the Western countries reached the production levels of 1963, thus passing to the phase of economical increase re-launch. The Mansholt Plan which included about 300 pages stipulated the foundation of a Supranational Authority, whose proficiencies pertained to agricultural products. Adept of free trade, Mansholt initially wanted a market-oriented liberal CAP, which could have determine major structural changes in Western Agriculture. These would have caused an increase of productivity and a decrease of unemployment.

## **2. The emergence of the Common Agriculture Policy (CAP) in the economical and political context. Failures and achievements**

The CAP was initiated after World War II as part of the Treaty of Rome that was signed in 1958. Following post-war shortages, Europe began to explore ways to become self-sufficient in food and agricultural production at the regional level. The Treaty of Rome set the stage for the CAP by establishing guaranteed markets as well as a fair price for agricultural producers. The CAP went into effect in 1963 with four basic principles (Delayen, 2007):

➤ A unified market for the free movement of agricultural products in the European Union covered by community preference.

➤ Financial solidarity: All costs of the CAP were to be financed out of a communal treasury, FEOGA (European Fund for Orientation and Agriculture Guarantee), supported by import tariffs and contributions from European countries.

➤ Community preference: preference should be given to European agricultural products, rather than imports from a third country. This principle took shape through relatively high trade barriers and a system of import quotas for products from third countries, while within the European Community, agricultural products circulated freely. Each sector of production was regulated through a system of Common Organizations of the Markets (COMs).

➤ Parity and productivity: Farmers' incomes were to be equal to incomes in the other sectors, with reasonable prices in order to permit food access to the consumer.

CAP development, since the time of its enforcement (1958) until the '90s reflect the existence of the differences and sometimes of the conflicts resulted along the European integration process. Within this context, CAP appears as a symbol of European unity, getting the states involved in this policy to respect the objectives assigned in Rome. In Ralf Dahrendorf's opinion, former CEE commissary, as R.W Howarth recounts, "CAP is a little more than a tool of the Ministries of Agriculture to achieve in Brussels, in the name of Europe, what one could not achieve for farmers, at national cabinet level" (Howarth, 1990). The same author states that "CAP was created as a kind of business between the French and the Germans. CEE had to promote industrial free exchange in order to please Germany and to adopt a common agricultural policy to please France" (Howarth, 1990).

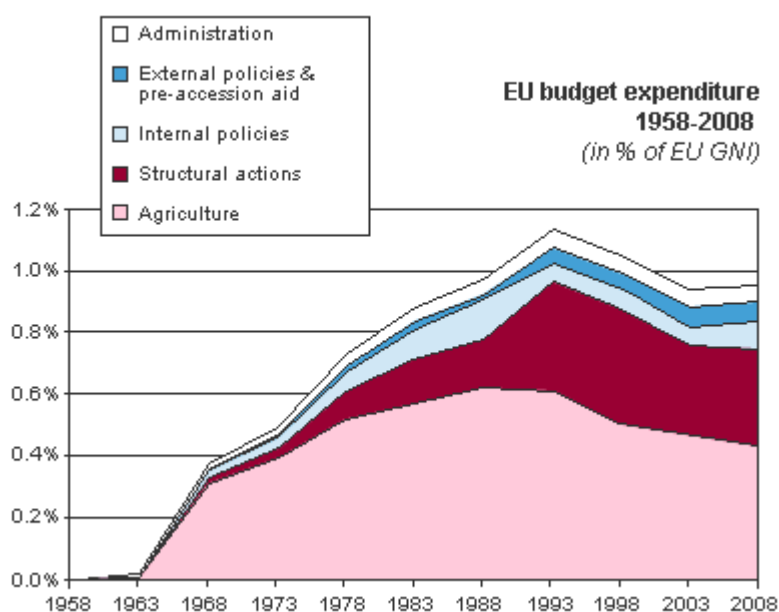
The main factors leading to the inclusion of agriculture within the integration process were: diversity of the national agricultural policies, structural disparities and low efficiency of the European agriculture, farmers' political significance, and the international context. Consequently, European integration could not be achieved without agriculture. CAP is a legislative framework composed of a series of norms and mechanisms which regulate production, agricultural products trade in the EU; as the rural development becomes more and more important.

When it was first set up, the Common Agricultural Policy had four primary goals:

- ✓ increase the productivity of agriculture;
- ✓ ensure food security for European people;
- ✓ increase farmers' revenues to increase their standard of living and to help them invest in their farm;
- ✓ offer good quality food at reasonable prices for consumers.

In time, the CAP objectives changed and extended from ensuring food security for the population and the stability of agro-food markets

(objectives in the first years) to ensuring a decent living standard for the rural communities in the Member States. The structure of the budgetary expenses of the EU also reflected the targeted political objectives throughout the time, as well as the importance of the agric-food and rural sector (see Figure 1)



**Figure 1.** The dynamic of EU budget expenditure 1958-2008  
(Source: <http://ec.europa.eu/budget/reform/history>)

With the establishment of the European Agricultural Guidance and Guarantee Fund (EAGGF) in 1962, the expenditures for agriculture began to rise significantly, so that in 1965, these already had 35.7% of the EU budget. In the year 1985, CAP expenditures had increased up to 70.8%, while this significant share was maintained throughout the period 1988-1992 (60.7% of the EU budget on the average). The need for a radical change of this policy was increasingly obvious, and the steps to reach this objective were gradually made (EIR, 2007). The draft for 2009 Agriculture and Rural Development budget is highlighted objectives like:

- Promoting a robust and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community.

➤ Contributing to sustainable development of rural areas, in particular through helping the agricultural sector to adapt to new challenges, protecting the environment and the countryside, especially in view of climate change, and improving the quality of life in rural areas, whilst ensuring growth and jobs in the countryside.

➤ Promoting the European agricultural sector in world trade.

The proposal of 2009 budget shows the trend to gear policy spending towards the energy and environment (see Figure 2).



**Figure 2.** Proposed budget 2009

(Source: [http://ec.europa.eu/budget/index\\_en.htm](http://ec.europa.eu/budget/index_en.htm))

- Cohesion & Competitiveness for growth and employment
- Direct aids and market related expenditure
- Rural development
- Total administrative expenditure
- The EU as a global player
- Citizenship, freedom, security and justice
- Compensations Bulgaria and Romania

### 3. Key moments of the CAP reform

The CAP has always been a difficult area of EU policy to reform. This is a problem that began in the 1960s and one that continues to the present day. CAP began to take shape with the Stresa Conference and with the Mansholt Plan, becoming thus an authentic community embryo, conducted by the Council, so that the end of 1970, the most important part of the CAP cooperation was already achieved. On the other hand, we should not ignore

the fact that U.S.A. wanted to negotiate the problems raised by CAP, on their own territory, that of the GATT negotiations. In order to correct the differences from the international commercial system, on the 20 of September 1986, in Punta del Este (Uruguay), there was convoked a new meeting for multilateral trade negotiations, entitled “The Uruguay Round”. The discussions seemed to be extremely difficult.

After years of protractions and numerous negotiations, The Twelve, in reality just eleven (Italy did not wish a Reform) have come to a global agreement on the 21<sup>st</sup> of May 1992. In 1991, the Commission, headed by Ray Mac Sharry, the European commissary for agriculture, presented two debate documents regarding the development and future of CAP. The Mac Sharry Reform brought a new approach of the public involvement in agriculture, but keeping the principles on which CAP has worked for 30 years. It was estimated that the Mac Sharry Reform has reached its objectives, concurring with the requirements of the European agriculture. The echoes of this reform in the specialty literature did not hesitate to show. Vincze (1990) adds “it is indubitable that the Mac Sharry reform of the Common Agricultural Policy represented a radical change, by the tendency of cutting out the prices policy from the income policy and by the proximity of the internal prices of the international ones”.

Thus, the first important CAP reform was adopted in May 1992 (Mac Sharry reform). Before 1992, the prices within the European Union were maintained relatively high, due to import tariffs and intervention prices. European products were sold at “competitive prices” outside Europe only due to export subsidies. The Mac Sharry reform marked the beginning of direct payments in order to compensate for the decrease of the price support.

Some of the consequences of the new CAP were translated in various negative effects for farmers and for environment (<http://www.citizen.org/cmep/foodsafety/eu/common/articles>): small family farms were badly hurt by price decreases, while they received few direct payments. Many have given up. The process of agricultural concentration has accelerated, leaving many people unemployed and a rural area increasingly uninhabited. The opening of the markets has led to more single species crops at the expense of biodiversity. Globalisation of the food supply means more transport, more waste, and a growing threat to climate change; the industrialization of agriculture means more pesticides, more nitrates and worsening conditions for farm animals.

Ulterior events – international affairs, European enlargement towards Center and East, budget restrictions induced by the preparation of monetary union, enhanced competitiveness of the products coming from tertiary states and new negotiations rounds of the Worldwide Trade Organization resulted in changing, once more, the CAP. Thus, “a reform of the reform” became shortly a necessity. The 2000 Agenda – For a More Powerful and Expanded Union, was a step in that direction. The 2000 Agenda, published in July 1997 by the European Commission, offers the answer to the 21<sup>st</sup> century challenges. The document is divided in 3 sections dedicated to: Preparing the EU enlargement; Solution to future economic and social challenges induced by this enlargement; a new financial plan for the period 2000 – 2006. More radical changes, involving staged substantial cuts in cereal, dairy, and beef support prices, were detailed in the Agenda 2000 agreement of March 1999 for the period 2000-2006. These changes were intended to bring market forces to bear on EU agriculture and make farmers more responsive to consumer wishes. From an environmental perspective, the Agenda 2000 results are disappointing because they: prolong many production subsidies which continue to encourage intensification or have other damaging consequences; fail to fulfill the promise to establish rural policy as a 'second pillar' to the CAP; postpone reform of the EU dairy regime whose intensive production contributes to nitrate problems and farm waste pollution; leave unreformed the regimes for many Mediterranean products and for sheep meat. Nevertheless, we could not ignore some positive features of Agenda 2000 reform, such as: opportunities to apply environmental conditions where direct commodity payments are made; the new framework of the Rural Development Regulation and its opportunities to promote the integrated and decentralized planning of agri-environment, agricultural and rural development measures, though within severe financial constraints.

The next summit on the identification of achieved progresses was the mid-term Review of the 2000 Agenda. In September 2003, a new legal framework was adopted, regarding the CAP reformation. The main objective of this reform is that of ensuring a better balance in sustaining and reinforcing the rural environment by transferring some funds from the first CAP pillar – the market and income policy, and towards the second pillar – the sustainable development of rural areas. In 2003, further reforms were introduced, which are in the process of being implemented today. These reforms coincided with the entry of 10 new countries from Eastern and Southern Europe into the EU - followed by two other countries which entered the EU at the



beginning of 2007. 2003 report, commissioned by the European Commission, by a group of experts led by Belgian economist André Sapir stated that the budget structure was a “historical relic”. The report suggested a rethink of EU policy, redirecting expenditure towards measures intended to increase wealth creation and cohesion of the EU.

Since 2005, the debates regarding agriculture policy have been focused on issues that were discussed within 2003 reform package, especially those regarding the improving of CAP implementation, initiative known as “Health Check” (HC). On the 20th of November 2007, European Commission brought into discussion its own position referring to the CAP new trends (European Commission, 2007). In this context, CAP-HC has considered as being its major goal the increase of the performance level.

The budget remains a bone of contention among members of the EU, even though the CAP’s budget is guaranteed until 2013. In fact, it could potentially be reviewed as early as 2008 or 2009 because some states have argued that agriculture consumes too much of the budget (essentially UK and the Nordic countries). The CAP budget is currently comprised of 54.7 billion Euros (71.7 billion dollars) per year, of which 40 billion are spent for the first pillar, i.e. mainly direct payments. However, the share of the CAP in the EU budget is regularly decreasing: today it represents 43 percent of the overall budget while in 1984 it represented 70 percent of the overall budget. This represents a marked shift over the last 20 years. Even as it has decreased greatly, the agriculture component of the EU budget is still notably large. Part of the reason for this is that most agriculture policies and hence government spending is decided at the EU level. Interestingly, a new debate around the need for a common budget to support a European agriculture policy has emerged. Some countries propose to abolish the financial solidarity principle and bring the CAP to an earlier iteration that had been financed by countries individually rather than collectively. This would imply that wealthier countries such as Germany, France, Austria, Netherlands and Sweden could more easily support their agriculture. Yet, the new member states have less national wealth and would lose with this scenario. The new member states need investment to modernize their agriculture programs and to ensure that agricultural production is environmentally and socially sustainable. Eastern states would also seek to receive a larger part of the budget. Resolving this imbalance within the CAP budget will continue to be a difficult negotiation within the ever-changing EU (Delayen, 2007).

#### 4. Agri-environmental measures

Agri-environmental measures are designed to encourage farmers to protect and enhance the environment on their farmland. It provides for payments to farmers in return for a service – that of carrying out agri-environmental commitments that involve more than the application of usual good farming practices (European Commission, 2005).

Agri-environment measures began in a few Member States in the 1980s on their own initiative, and was taken up by the European Community in 1985 in Article 19 of the Agricultural Structures Regulation (Council Regulation, 1985), but remained optional for Member States. In 1992 it was introduced for all Member States as an “accompanying measure” to the Common Agricultural Policy (CAP) reform. Thus, they were introduced by McSharry reform. The measures encourage the farmers to perform services for the environment that go beyond the observation of good agricultural manners and of the legal provisions. The agri-environmental measures became the subject of a dedicated Regulation (Council Regulation, 1992), and Member States were required to introduce agri-environment measures “throughout their territory”. Those who adopt voluntary agro-environmental commitments for five years will receive assistance under the means of payments. Member States have the obligation to offer the farmers the mentioned agro-environment schemes. Thus, it is shown the political priority that these types of measures are granted.

The most important CAP measures concerning the protection of the environment are:

- Cross-compliance links direct payments to farmers to their respect of environmental and other requirements set at EU and national levels (Petrescu-Mag, 2007). The 2003 CAP reform put greater emphasis on cross-compliance which has become compulsory. Farmers must respect cross-compliance standards in two ways:

- a) *Good agricultural and environmental condition*: All farmers claiming direct payments, whether or not they actually produce from their land, must abide by standards to be established by the Member States

- b) *Statutory management requirements*: Farmers must respect other cross-compliance standards called statutory management requirements set-up in accordance with EU Directives and Regulations relating to the protection of environment, animal welfare, animal and plant health. Failure by farmers to respect these conditions can result in deductions from, or complete cancellation of, direct payments.

- Comprising the demand of environment protection between the selection criteria of the rural development projects, especially those regarding investments.

- Granting support, within CAP second pillar, for the exploitation of the agricultural surfaces from areas with specific environmental problems, and also the protection and conservation of forestry patrimony.

- Supporting, within CAP second pillar, measures of promoting methods of agricultural production that are more protective to the environment and that are focused on the conservation of the rural patrimony (ecological agriculture methods).

The development of the CAP should always take into account the principle of sustainable development, with special focus, apart the environmental one, on the social and economic aspects.

The CAP development is due not only to the changes from the agricultural sector *stricto sensus*, but also to the society demands, such as: the permanent concern for the hygiene and food safety or animal protection (Leguen de Lacroix, 2004). In these fields, CAP and other EU policies were strengthened since 1990. Now-days, citizens should not fear for the food supplies in the demanded quantities. In the present, their concerns are focused more on the production methods (Wolf, 2002), on the market demands, quality of the products, food safety and animals' welfare. Many farmers resorted to schemes that encourage the promotion of the ecologic production within EU rural development programs. The consumers increasing awareness for the food production methods and the concern for the environment protection contribute to the development of the ecologic agriculture (CAP reform established financial support – maximum 600 Euro/ha for annual crops, 900 Euro/ha for perennial crops and 450 Euro/ha for other types of crops- for those farmers who during at least 5 years practiced agri-ecologic methods). The ecologic brand may be used on a voluntary ground by the farmers and producers that are using ecologic methods. The brand means:

- at least 95% of the ingredients are ecologic;
- the product respects the rules of the official inspection scheme;
- the product has the producer, the processor or the dealer name and also the name or the code of the inspection body.

The Community's legislative activity in this area is considerable, although it has been directed at very different levels depending on the type and urgency of the problems. Legislation in the food safety field started in

the 1960s, grew more intense in the 1990s with the advent of the single market, and, since 1994, has focused on combating bovine spongiform encephalopathy (BSE). The 1992 and 1999 CAP reforms emphasized agri-environmental measures, and the European quality labels were introduced in the same period of time. Community legislation cannot and should not take over entirely from that of the Member States and attempt to cover all aspects of quality; rather, it should seek to work in tandem on pursuing a policy to foster quality. For consumers, safety is the most important ingredient of their food. The European Commission has identified food safety as one of its top priorities. The White Paper on Food Safety of January 12, 2000 sets out the plans for a proactive new food policy: modernizing legislation into a coherent and transparent set of rules, reinforcing controls from the farm to the table and increasing the capability of the scientific advice system, so as to guarantee a high level of human health and consumer protection. The Strategic Priorities of the White Paper (2000) are: to create a European Food Safety Authority, to consistently implement a farm to table approach in food legislation, to establish the principle that feed and food operators have primary responsibility for food safety; that Member States need to ensure surveillance and control of these operators; that the Commission shall test the performance of Member States' control capacities and capabilities through audits and inspections.

The document sets out over 80 separate actions that are envisaged over the period ahead and intends to close identified loopholes in current legislation. The new legal framework will cover animal feed, animal health and welfare, hygiene, contaminants and residues, novel food, additives, flavorings, packaging and irradiation. It will include a proposal on General Food Law which will embody the principles of food safety such as: responsibility of feed manufacturers, farmers and food operators; traceability of feed, food and its ingredients; proper risk analysis through a) risk assessment (scientific advice and information analysis), b) risk management (regulation and control) and c) risk communication; application of the precautionary principle if appropriate.

Food law, both at national and EU level, establishes the rights of consumers to safe food and to accurate and honest information. The EU food law aims to harmonize existing national requirements in order to ensure the free movement of food and feed in the EU. Regulation no. 178/2002 laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures

in matters of food safety, establishes the principles of risk analysis in relation to food and establishes the structures and mechanisms for the scientific and technical evaluations which are undertaken by the European Food Safety Authority (EFSA). It also establishes a framework for the greater involvement of stakeholders at all stages in the development of food law and establishes the mechanisms necessary to increase consumer confidence in food law.

### **5. Conclusions**

To European Union, the CAP reform is not just a simple exercise. The CAP impact and each change that might come up, will affect the entire community agriculture. These reforms refer not only to production, but also the legitimate political objectives, like, for example, environmental protection, landscape preservation, animal welfare, rural area viability. CAP had to be redefined in order to generate citizens' food long and mid-term safety. From this perspective, there was accepted by all the stakeholders involved that it is very urgent to establish the guidelines on which the future could be shaped, not only for the farmers, but also for the entire EU rural world.

During the last decade we have experienced if not a green revolution – from the ecological perspective – at least a green evolution in the agricultural policy (Leguen de Lacroix, 2004). Nowadays, consumers have other expectations that when the CAP was initiated. 91% of the EU citizens believe that one of the essential activities of the Common Agricultural Policy is to guarantee food safety. 89% consider environmental protection to be another basic function. The new agricultural policy has taken the responsibility of these consumers' new expectations, setting up a solid basis for our rural patrimony preservation, in order to produce the required agricultural merchandise, at the same time ensuring the position on the world market.

Nowadays agricultural policy no longer resembles the one initially designed. First because CAP was very much simplified by combining, in a unique payment, of the different direct payment diagrams, granted to the farms. On the other hand, it transformed into a more efficient mechanism, which achieves several objectives at a lower cost. A policy which swallowed in the past two thirds of the total budget of the EU, it absorbs now less than a half of it, and the figure will decrease to a third in ten years. While the costs are decreasing, the inclusion area is constantly expanding as a consequence of the introduction of a comprehensive rural development policy, which supports the diversity, reorganization and evolution of the areas and sectors of rural economy in the entire European Union.

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## THE ANALYSIS OF THE ROMANIAN INSURANCE BROKERS

MARIUS GAVRILETEA<sup>1</sup>

**ABSTRACT.** Every insurance market develops itself and sells insurance products using different strategies and distribution channels. The main role in selling insurance policies is granted to insurance brokers. In this paper we will analyze the struggling phenomenon of insurance brokerage industry in Romania after 2002. This year was chosen because from that time a new legislation appeared and the requirements for insurance brokers were more rigorous than in the previous years.

The Romanian insurance brokerage market is very active; on the Romanian market are active both local brokers and famous international brokers that brought with them their intelligent solutions for risk management programs.

The present paper analyses these brokers through their number, activity volume and profitability. An important period for insurance brokers activity proved to be between 2004 and 2007, as the paper will show.

In the end we conclude that the brokerage activity still presents premises for growth and the future in the selling insurance market will belong to the brokers.

**Keywords:** insurance, brokers, premium, intermediation

### 1. INTRODUCTION

The initial stage of insurance broker evolution in Romania 1994-2002 was determined by the existence of a great number of brokers. After that period, and the appearance of the new insurance law 32/2000, the level of capitalization increase significantly, some brokers merged and others ceased working. Also in that period and after this, in Romania appeared strong international brokers and with the strong Romanian ones dominate and rule the local insurance brokerage market.

In order to get a considerable position the insurance brokers offer evolved insurance buckets, at international standards with multi-risk systems.

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Even from the beginning in order to sell these buckets the target segment was the one with huge revenues or great national/international companies. In the same time brokers offer simple insurance policies to the managers of these companies. After a period, insurance brokers hired insurance agents to work for them, their main objective is to reach and subscribe insurance for the common people.

## **2. MATERIAL AND METHODS**

A few years ago, the insurance brokers was negative affected by the rigid contracts offered by the Romanian insurance companies, the results was a negative impact on selling process. Once with the insurance market evolution these problems were solved, the local insurance companies realized the importance of the brokers, and soon the main role in selling insurance in the market was claimed by the brokers.

In present the legislation for insurance brokers is a modern one, adapted to the European Directives for Insurance:

- Law nr. 32/2000 for insurance and insurance supervising
- Law nr. 136/1995 for insurance and reinsurance in Romania
- Order nr. 3110/2004 for set up the Normative regarding brokers authorization
- Order nr. 3111/2004 for set up the Normative about the information that insurance companies and insurance intermediaries must show to the clients
- Order nr.4/2001 for insurance brokers authorization

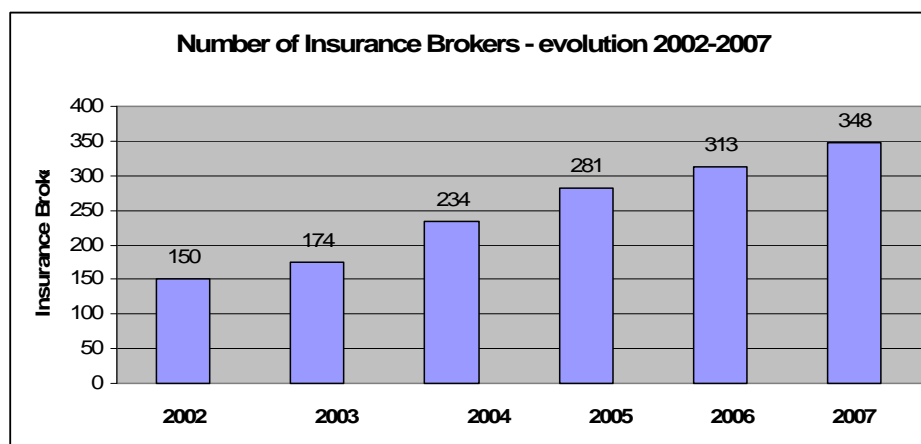
After an analysis of these laws and orders the brokerage activity in Romania assumes the insurance policies intermediation and the consulting in risk management field. The main types of insurance brokers that are acting in Romania are represented by multinational brokers, local important brokers with international activity and small brokers.

## **3. DISCUSSIONS**

In Romania, at this time there is an appreciation that only 5% of brokers offer qualified consultancy in risk management. These brokers will be more successful, because in case of similar offers from other insurance brokers, if they offer risk management consultancy they may get the new contracts. The risk management process became very important for companies because after a professional analysis they will observe if the insurance is the most efficient tool to finance their risks. In case of a negative answer they will be offered by the broker real risk control options.

THE ANALYSIS OF THE ROMANIAN INSURANCE BROKERS

Using the facts from the Insurance Supervisory Commission the number of active insurance brokers grew constantly from 2002, up to 2007 with an average of 39.75%.



**Fig. 1** – The Evolution of Insurance Broker

The Romanian broker insurance market is expected to grow in the next years, but the effective number will be perhaps below the existed average, because at this moment the Romanian economy does not seem to increase/develop in the next years of global crisis expectation.

The continuous increasing of brokers number generated a continuous growth of their assets, all result are in RON.

**Table 1:**

**The Volume of Assets and Social Capital for Insurance Brokers**

Year	Assets (RON)	Social Capital (RON)
2002		2,823,225
2003	40,173,195	4,874,336
2004	93,443,193	7,033,357
2005	155,720,417	12,373,716
2006	235,521,586	14,985,334
2007	358,565,850	16,511,972

As we can see from the table the brokers assets are increasing every year, these evolution give us the conclusion that the importance of the insurance brokers is getting higher, the average of assets/insurance broker is increasing very powerful in the last years – from 230,880 Ron/broker in 2003, up to 554,165 Ron/broker in 2005, and 1,030,361 Ron/broker in 2007.

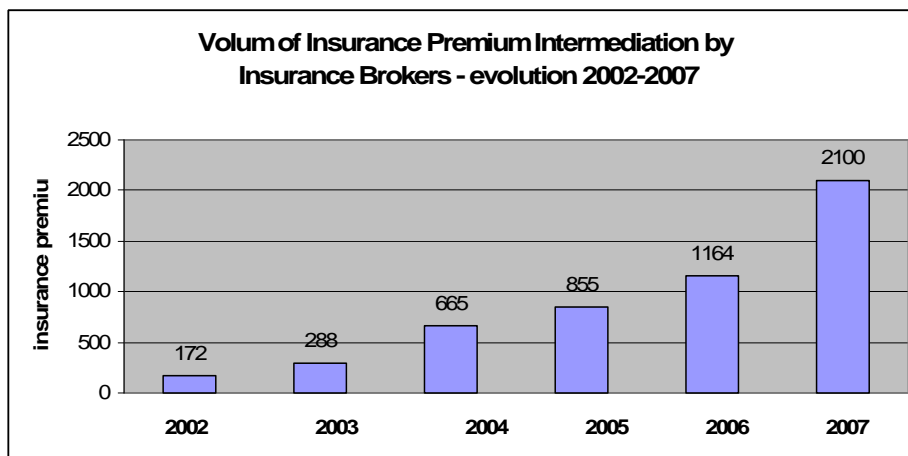
Another criteria that prove us the importance of the insurance brokers in the Romanian insurance market, is the analysis of insurance premium intermediation.

**Table 2:**

**Volume of Intermediation for Insurance Brokers**

Year	Volume of Insurance Intermediation (RON)
2002	172,433,300
2003	288,713,301
2004	665,660,448
2005	855,389,230
2006	1,164,860,000
2007	2,100,000,000

As we can notice the insurance premium intermediated by the brokers is increasing from one year to other, the greater evolution was in 2007 when the figures almost doubled. The reason that the level of the intermediation grew such significant is the appearance in Romania of numerous international companies that usually work with brokers.



**Fig. 2 – Volume of Insurance Premium Intermediation**

Furthermore we emphasize the analysis at the level of individual insurance brokers from 2002 – 2006, taking account of the volume of intermediation.

**Table 3:****Evolution of Premium intermediation 2002 - 2006**

<b>2002</b>	<b>Broker</b>	<b>Premium intermediation (Ron)</b>
1	MARSH SRL	27,485,800
2	GRAS SAVOYE ROMANIA SRL	18,065,800
3	KaRo SERVICII DE ASIGURARI SRL	15,782,200
4	SAFE INVEST ROMANIA SRL	13,984,300
5	FORUM ASIGURARI AUTO SRL	11,923,600
<b>2003</b>	<b>Broker</b>	<b>Premium intermediation (Ron)</b>
1	MARSH SRL	39,709,654
2	GRAS SAVOYE ROMANIA SRL	24,177,736
3	KaRo SERVICII DE ASIGURARI SRL	24,086,793
4	FORUM ASIGURARI AUTO SRL	20,240,000
5	ASIGEST SA	16,417,488
<b>2004</b>	<b>Broker</b>	<b>Premium intermediation (Ron)</b>
1	MARSH SRL	69,271,995
2	PORSCHE BROKER ASIGURARI SRL	59,190,787
3	ASIGEST SA	53,340,204
4	KaRo SERVICII DE ASIGURARI SRL	32,787,237
5	GRAS SAVOYE ROMANIA SRL	29,037,099
<b>2005</b>	<b>Broker</b>	<b>Premium intermediation (Ron)</b>
1	MARSH SRL	91,124,020
2	PORSCHE BROKER ASIGURARI SRL	75,576,119
3	ASIGEST SA	61,641,478
4	KaRo SERVICII DE ASIGURARI SRL	49,960,231
5	ACTIV ASIGURARI SRL	38,042,221
<b>2006</b>	<b>Broker</b>	<b>Premium intermediation (Ron)</b>
1	PORSCHE BROKER	128,220,000
2	MARSH	101,530,000
3	AON ROMANIA	74,740,000
4	ASIGEST	62,760,000
5	HVB INSURANCE	61,120,000

From the previous table we observe that the main international brokers were active in Romania since 2002, and their presence is significant. The tops are dominated by the same brokers, the order in some years are changed.

We must mention that some of the brokers are affiliated to important banking concerns, and once with credit market development the brokerage were much needed.

Also, some insurance brokers are affiliated to car/trucks dealers, and in the moment of the leasing agreement when insurance is needed, brokers are intermediate motor's insurance. If we analyze insurance market we notice that a huge percentage – 70% from the insurance brokers' intermediation is generated by motors' insurance.

Despite these remarks there are international brokers – Marsh, AON, and Grassavoye – that are doing business internationally and have great revenues only from the intermediation of insurance premiums for national/international companies. Theirs' results are very appreciable if we think that they are not affiliated to local financial institutions or car dealers.

Because the level of intermediation grew considerable, we may analyze the revenues from insurance brokerage, for the same period 2002-2007.

**Table 4:**

**Brokers Revenues 2002 – 2007**

<b>Year</b>	<b>Brokers' Revenues (Ron)</b>
2002	34.108.400
2003	62.383.434
2004	118.802.773
2005	165.726.687
2006	239.768.956
2007	350.785.097

Brokerage revenues registered an ascendant trend with the most significant increases in the last years. In 6 years of analysis the increasing was of 1028% that mean an average of 171% annual increasing. If we are speaking about effective sum the absolute evolution is increasing each year (47 mills Ron in 2005, 74 mills Ron in 2006 and 129 mill Ron in 2007).

In the same analyzed period some brokers recorded very good financial results, meantime other recorder losses.

**In the analyzed years the total profits of the brokers increase constantly;** in 2003 from 174 brokers 121 were profitable – 53 recorded

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losses; in 2004 from 234 brokers 175 recorded profit and 59 losses, in 2005 from 281 brokers 206 recorded profit - 75 losses; in 2006 from 313 brokers 220 were profitable and 93 recorded losses; in 2007 from 348 brokers 255 recorder profit and 93 losses.

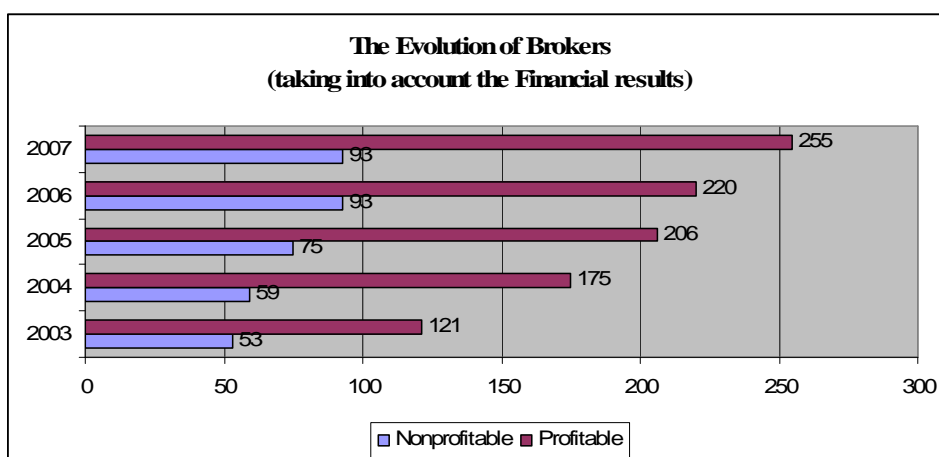


Fig. 3 – The Evolution of Brokers (after financial results)

We present further more the evolution of the profit in 2003 – 2007 for the top 5 insurance broker in Romania.

Table 5:

The Profit Evolution for Top 5 Insurance Brokers 2003 - 2007

2003	Insurance Broker	Profit (Ron)
1	MARSH SRL	986,302
2	FORUM ASIGURARI AUTO SRL	980,989
3	KaRo SERVICII DE ASIGURARI SRL	738,332
4	GRAS SAVOYE ROMANIA SRL	572,781
5	AFIN ASIGURARI SRL	479,442
2004	Insurance Broker	Profit (Ron)
1	PORSCHE BROKER ASIGURARI SRL	2,435,739
2	MARSH SRL	1,417,522

MARIUS GAVRILETEA

3	KaRo SERVICII DE ASIGURARI SRL	1,243,849
4	GRAS SAVOYE ROMANIA SRL	1,166,442
5	HVB LEASING INSURANCE BROKERSRL	1,133,718
<b>2005</b>	<b>Insurance Broker</b>	<b>Profit (Ron)</b>
1	PORSCHE BROKER ASIGURARI SRL	6,464,981
2	VBL BROKER DE ASIGURARE SRL	4,558,821
3	MARSH SRL	2,953,922
4	ACTIV ASIGURARI SRL	2,608,748
5	EURIAL BROKER SRL	2,284,030
<b>2006</b>	<b>Insurance Broker</b>	<b>Profit (Ron)</b>
1	RCI BROKER DE ASIGURARE SRL	6,067,072
2	PORSCHE BROKER ASIGURARI SRL	5,951,539
3	VBL BROKER DE ASIGURARE SRL	5,318,155
4	HVB LEASING INSURANCE BROKER SRL	4,996,087
5	MARSH SRL	3,911,004
<b>2007</b>	<b>Insurance Broker</b>	<b>Profit (Ron)</b>
1	UNICREDIT INSURANCE BROKER S.R.L.	16,107,397
2	PORSCHE BROKER DE ASIGURARE S.R.L.	11,321,757
3	VBL BROKER DE ASIGURARE S.R.L.	10,295,366
4	RCI BROKER DE ASIGURARE S.R.L.	9,849,403
5	AFIN BROKER DE ASIGURARE-REASIGURARE S.R.L.	6,064,190

If we analyze the first place – taking into account the profit criteria, in the period 2003-2007, we notice that there are changes. The profit is not only influenced by the volume of intermediation - Porsche Broker is the first on the top for 2 years as profitability, and Marsh is the first broker in 4 consecutive years – criterion is volume of intermediation. Only in 2006 Porsche became leader also after this criterion.

#### 4. CONCLUSIONS:

Insurance brokerage is one of the most dynamic financial sectors in Romania. In that moment the specialist estimate that the subscription of the brokers will grow higher than the insurance sector growth, because in many cases even small companies are becoming aware of the importance of real solution in risk management programs.

The next years will offer us probably the same main actors, but the order may not be the same. Once with the rough condition in the credit and leasing market, taking account of the world wide crisis/decline, and the bad expectation in the new car sale industry – we conclude that the future will belong to the major international brokers that are very active in Romania. That is why, there are continuously implementing new risk management programs, new risk controlling services, practical solution in claims management – and all these auxiliary brokerage services will become more and more appreciated by the Romanian companies.

Also, if the brokers will allocate enough financial resources to educate the common people and make them aware of the role of the insurance broker, the perspectives of increasing the revenues are higher. In all developed countries the majority of the insurance are selling by brokers, and this trend will be soon a reality in Romania too.

## REFERNECES

1. WWW.1ASIG.RO
2. WWW.XPRIMM.RO
3. WWW.CSSA-ISC.RO
4. WWW.ASIGEST.RO
5. WWW.DAILYBUSINESS.RO
6. Law nr. 32/2000
7. Law nr. 136/1995



## **THE RELATION BETWEEN UNAIDED BRAND AWARENESS AND BRAND COMMERCIAL PERFORMANCE: A STUDY AMONG URBAN ROMANIAN CONSUMERS**

**OVIDIU IOAN MOISESCU<sup>1</sup>**

**ABSTRACT.** The role and importance of brands as core parameters for establishing marketing strategies has been widely accepted in developed countries, both in practice and in theory, but insufficiently acknowledged within most of the Romanian companies. If some of the large sized Romanian companies approach brands and their value as core elements of their marketing strategies, small and medium sized companies' marketing managers usually don't perceive the importance of branding and, even if they do, they lack the necessary information and knowledge in order to reflect branding within correctly underlain marketing strategies. This lack of knowledge is due to limited financial resources and/or poor motivation towards conducting specific studies regarding links and relations between brand dimensions, consumer behavior and commercial performance. The main objective of this paper is to investigate and identify the nature and strength of the relation between brand unaided awareness and brand commercial performance in the case of durable and non-durable products, within the local market segment represented by urban Romanian consumers. From this point of view, brand commercial performance is approached behaviorally, considering two main indicators: brand market share, on one hand, and brand loyalty from the perspective of brand repurchase intention, on the other hand.

**Keywords:** Unaided brand awareness, brand loyalty, repurchase intention, market share.

### **1. Introduction**

In nowadays extremely dynamic and often turbulent marketing environments, and in the context of a globalization that strongly amplifies markets' offer and, implicitly, the competition, brands become essential for differentiation and positioning, being fundamental sources of competitive

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advantages and commercial performance. This vision regarding the role and importance of brands as core parameters for establishing marketing strategies has been widely adopted in developed countries, both in practice, by organizations that confront the dynamics of marketing environments, and in theory, through several scientific studies within the specialized literature.

However, in Romania, at least for now, there is a lack of studies regarding brands and their role and importance within marketing strategies. The Romanian specialized literature often regards brands as simple operational components of product policies or, in best cases, as elements concerning marketing strategies, seen as routine or ordinary instruments rather than core parameters of marketing strategies.

Moreover, many of the Romanian organizations or of those who are active within the Romanian market don't include in their marketing strategies explicit elements regarding brands or, if they do, they approach brands rudimentary, only considering their product source identification and differentiating from competition roles, without an articulate positioning strategy and/or without strategic objectives regarding long term brand value growth.

A recent study conducted by a specialized consultancy company among Romanian companies (BrandTailors, 2008) proved the fact that very often these companies have a very simplistic image about what brands mean, mostly limited to logos and a brand names. The study also revealed the existence of three types of companies, considering their branding knowledge and the role and importance they give to brands within their marketing strategies. Thus, the first and the largest category include companies, mostly local small or medium sized, that have no knowledge about branding and don't perceive its importance in establishing marketing strategies (sometimes not even having a marketing strategy). The second category comprises mostly local companies that consider the existence of brand names and brand visual identities as being useful, but having very limited knowledge about what brands mean and granting brands with insufficient importance when establishing marketing strategies. Finally, the third and the smallest category of companies, include mostly multinationals or large sized Romanian companies which have significant knowledge about branding and consider brands as being core parameters of marketing strategies and long term brand value growth as being a strategic objective.

Therefore, if large sized enterprises or multinationals approach brands and their value as core elements of marketing strategies, small and medium sized companies' marketing managers usually don't perceive the

importance of branding and, even if they do, they lack the necessary information and knowledge in order to reflect branding within correctly underlain marketing strategies. This lack of knowledge and information is due to limited financial resources and/or poor motivation towards conducting specific studies regarding the links and relations between brand dimensions, consumer behavior and commercial performance. The aim of this paper is to analyze and identify this kind of links and relations, considering one of the most important brand dimensions – brand awareness – and its impact strength on commercial performance reflected through brand market share and consumers' brand repurchase intentions as indicator of brand loyalty.

## **2. Theoretical background**

During the last decades, brands have developed into important assets, effective brand management being a key factor for any company's commercial success. The development and long term enhancement of brand strength is (or should be) a target function of any company that wishes to maintain a competitive position in the market, allowing brand equity and hence the company's enterprise value to be increased.

### ***2.1 The concept of brand equity***

Considering the concept of brand equity, several classical approaches can be identified within the specialized literature. Aaker (1991) conceptualizes brand equity as being a complex system including a set of brand fundamental dimensions as awareness, perceived quality, loyalty and associations. Aaker (1996) suggests a brand equity measuring system suggestively called "brand equity ten" which should consider ten analytical dimensions to be taken into consideration in order to describe brand equity, dimensions of which brand awareness and brand loyalty are fundamental. Kevin Lane Keller (1998:45) considers brand equity from a customer based view as being "the differential effect of brand knowledge on consumer response to the marketing of the brand". Farquhar (1989) considers that three elements are essential in building a strong brand with the consumer – a positive brand evaluation, an accessible brand attitude, and a consistent brand image – these elements being actually the core of brand equity.

### ***2.2 Brand loyalty***

Brand loyalty is the core dimension of brand equity, supporting his statement through several advantages of loyalty as (Aaker, 1996): barrier to

competition entries, basis for price premiums, generator of time to respond to competitor innovations, and, respectively, means against unhealthy price competition. Brand loyalty can also reduce the costs of doing business through decreasing acquisition and promotion costs (Bennett and Rundle-Thiele, 2005).

Although Ha (1998) considers that brand loyalty should be described and investigated considering cognitive aspects of brand loyalty, researchers often analyze brand loyalty through behavioral aspects like repeat purchases. For example, Fader and Schmittlein (1993) investigated the advantage of high share brands in brand loyalty, measuring brand loyalty only by the behavioral aspect of repeat purchase. According to their research, high share brands have significantly higher brand loyalty than low share brands. Bayus (1992) also analyzed brand loyalty by a behavioral measurement of probability of repurchasing.

Aaker (1996) suggests that brand loyalty can be assessed using a complex set of elements included into specific customer surveys intended to reveal customer satisfaction (the research instrument should include in this case questions like: “Were you – dissatisfied vs. satisfied vs. delighted – with the product or service during your last use experience?”), buying intentions (“Would you buy the brand on the next opportunity?”), buying habits/usage (“Is the brand the – only vs. one vs. two vs. one of three vs. one of more than three brands – that you buy or use?”), while a more intense level of loyalty could be identified through brand recommendation intentions (“Would you recommend the product or service to others?”).

### ***2.3 Brand awareness***

Another important dimension of brand equity consists in brand awareness (sometimes an undervalued component). Not only that it is important for a brand to be included in the consideration set (the brands that receive consideration for purchase), but it also influences perceptions and attitudes, sometimes being a driver for brand loyalty (Aaker, 1991). Reflecting the salience of the brand in the customers mind, awareness can be assessed at several levels such as: recognition (“Have you heard of?”), recall (“What brands can you recall?”), top of mind (the first-named brand in a recall task), brand dominance (the only brand recalled), brand knowledge (customers know what the brand stands for) and, respectively, brand opinion.

Keller (1993) considers that brand awareness is the first dimension distinguishing brand knowledge, reflecting consumers’ ability to identify the

brand under different conditions (the likelihood that a brand name will come to mind and the ease with which it does so). Brand awareness consists of brand recognition (consumers' ability to confirm prior exposure to the brand when given the brand as cue) and brand recall (consumers' ability to retrieve the brand when given the product category, the needs fulfilled by the category, or some other cues). Brand awareness plays an important role in consumer decision making because it is important that consumers recall the brand in the context of a given specific product category, as awareness increases the probability that the brand will be a member of the consideration set. Brand awareness can also affect decisions about brands in the consideration set, even in the absence of any brand associations in consumers' mind – in low involvement decision settings, a minimum level of brand awareness may be sufficient for the choice to be final. Awareness can also influence consumer decision making by affecting brand associations that form the brand image (Keller, 1998).

Considering Farquhar's (1989) approach regarding the elements of brand equity, the accessible attitude he refers to is related to how quickly a consumer can retrieve brand elements stored in memory, which actually is brand awareness. The attitude activation can be automatic, occurring spontaneously upon the mere observation of the attitude object, or controlled, when the active attention of the individual to retrieve previously stored evaluation is required. Research has showed (Farquhar, 2000) that only high accessible attitudes (brands with a high level of awareness) can be relevant when purchasing or repurchasing a brand.

Laurent, Kapferer and Roussel (1995) suggest that there are three classical measures of brand awareness in a given product category: spontaneous (unaided) awareness (consumers are asked, without any prompting, to name the brands they know in the product category – in this case the unaided awareness of a brand is the percentage of interviewees indicating they know that brand), top of mind awareness (using the same question, the percentage of interviewees who name the brand first is considered) and, respectively, aided awareness (brand names are presented to interviewees – in this case the aided awareness of a brand is the percentage of interviewees who indicate they know that brand).

### **3. Research methodology**

The main research objective of this paper consisted in comparatively analyzing and identifying the existence, nature and strength of the relation

between brand unaided awareness and brand commercial performance in the case of durable and non-durable products (consumables), within urban Romanian consumers. From this point of view, brand commercial performance was approached through two main indicators: brand market share and brand loyalty from the perspective of brand repurchasing intention.

The necessary data to be collected for the existing brands within two product categories (durables and consumables), considering the specified local market segment, consisted in unaided awareness, most recent purchased brand (in order to reflect market share) and repurchase intention, the research hypothesis being the following:

- *H<sub>1</sub>: Brand market share is positively correlated with brand unaided awareness.*
- *H<sub>2</sub>: Brand repurchase intention is positively correlated with brand unaided awareness.*

In order for the research objectives and instrument to be accurate, two important factors had to be taken into consideration.

Firstly, the investigated population comprised heterogeneous individual consumers not only considering their demographical characteristics (age, income, education, sex etc.), but also their vocabulary, intelligence level, technical knowledge and degree of usage regarding existing products and brands.

Secondly, the data had to be collected in such a manner so that investigated consumers could describe their behavior and attitude, what they do and what they think about the analyzed product categories and corresponding brands.

Therefore, the particular product categories selected to be investigated within the research were chosen so as: to be different considering their usage duration (durable/non-durable), not to be too technical (in order for most of the consumers to be able to evaluate their own behavior and express their attitudes towards those product categories) and to have a large rate of penetration into households usage or consumption.

Given the established criteria above mentioned, the particular product categories chosen for the research consisted in tooth-paste, as being representative for the non-durable product category, and television sets (for durables).

As secondary data about the research issue and the target population of the research were missing, the gathered information exclusively consisted in primary data. The data was collected through an ad-hoc survey, due to the fact that statistically representative data had to be obtained, the information

needed (awareness, last purchase, and repurchase intention) was basically unavailable otherwise, and the resources and time allocated to the research did not permit conducting a panel survey in order to investigate medium or long term evolutions of the analyzed relation.

Considering the same financial and time restrictions previously mentioned, the investigated population was limited to the urban consumers of Cluj-Napoca, one of the largest cities of Romania, although the intention of the research was to analyze the urban Romanian consumers as a whole.

Nevertheless, the research could still be considered (with certain limitations) as being representative for the entire urban Romanian population as Cluj-Napoca is, excepting the capital of the country (Bucharest), the second largest city of Romania with 310.243 inhabitants at 1<sup>st</sup> of July 2007, representing almost 3% of the Romanian urban population of 11.913.938 inhabitants (Institutul Național de Statistică din România, 2007). Cluj-Napoca is also the second largest higher education provider of Romania.

The questionnaire based interviews were conducted “face-to-face”, at the household’s residence of the respondents, by a group of 119 interview operators – students from the Faculty of Economics and Business Administration from the Babeș-Bolyai University of Cluj-Napoca, each student completing a set of five interviews.

The sampling method used for the survey consisted in a mixture of classical probabilistic and non-probabilistic methods. Firstly, the population was geographically clustered considering the 474 postal areas of Cluj-Napoca. Afterwards, 119 clusters were extracted through systematic random sampling. The 119 clusters (postal areas) were assigned to the 119 interview operators (one cluster to each operator), and each operator had to complete five questionnaire based interviews on the basis of an itinerary sampling method (5 consumers from different households, located into five consecutive buildings from the assigned cluster – postal area).

The data collected was afterwards verified and validated by contacting (via phone and/or email) a random sample of respondents in order to confirm his/her answers. The interview operators identified as trying to mislead the research through providing non-valid questionnaires were fully verified.

At the end of the data collection process, from the total of 595 assumed completed interviews, only 551 were validated, therefore the research having a statistical error of  $\pm 4,2\%$  ( $e = 1,96 \cdot \sqrt{0,5 \cdot 0,5 / 551}$ ), considering a statistical confidence level of 95%.

**Table 1.**

<b>Age</b>			<b>Education</b>		
18 – 29 years	233	42,29%	PhD	16	2,90%
30 – 39 years	88	15,97%	Master degree	61	11,07%
40 – 49 years	85	15,43%	Bachelor degree	250	45,37%
50 – 59 years	76	13,79%	Post high school studies	63	11,43%
≥60 years	69	12,52%	High school	128	23,23%
			Less	33	5,99%
<b>TOTAL</b>	<b>551</b>	<b>100%</b>	<b>TOTAL</b>	<b>551</b>	<b>100%</b>
<b>Monthly household income</b>			<b>Gender</b>		
≤1.500 RON	131	23,77%	Male	264	47,91%
1.501–3.000 RON	216	39,20%			
3.001–4.500 RON	129	23,41%	Female	287	52,09%
4.501–6.000 RON	48	8,71%			
>6.000 RON	27	4,90%			
<b>TOTAL</b>	<b>551</b>	<b>100%</b>	<b>TOTAL</b>	<b>551</b>	<b>100%</b>

The data collection instrument (the questionnaire) was designed using open questions in order to identify most recent purchases and to evaluate unaided brand awareness. In order to assess brand loyalty from the perspective of repurchase intention, a modified Likert scale was used, with six answering options from 1 (“will definitely not repurchase”) to 6 (“will definitely repurchase”), so that to avoid neutral responses and to force a positive/negative attitude.

#### **4. Results & Discussions**

The indicators designed in order to identify unaided brand awareness, most recent purchased brand and repurchase intentions were computed as it follows:



- each respondent had to mention the first three brands of tooth-paste and television sets that came to his/her mind, finally *unaided awareness* of each brand being reflected by the percentage of respondents that recalled that brand;
- each respondent had to mention the most recent purchased brand, the *market share* of each brand being finally reflected by the percentage of respondents that mentioned that brand as being the most recent purchased one;
- each respondent had to evaluate his/her intention to repurchase the most recently purchased brand, on a scale from 1 to 6; the *repurchase intention* of each brand was finally reflected by the mean of repurchase intention mentioned by each respondent who most recently bought that brand.

Table 2.

## Unaided awareness, market shares and repurchase intentions

	Brand	Number of purchasers	Market share	Unaided awareness	Repurchase intention
Consumable	COLGATE	330	59,89%	96,91%	5,33
	BLEND A MED	109	19,78%	74,77%	5,12
	SENSODYNE	38	6,90%	26,86%	4,84
	AQUAFRESH	24	4,36%	45,74%	4,58
	SUPER CRISTAL	13	2,36%	18,69%	5,31
	GLISTER	11	2,00%	1,81%	5,55
	PARODONTAX	5	0,91%	2,54%	3,40
	PEARL DROPS	5	0,91%	1,81%	5,60
	ASTERA	3	0,54%	2,72%	2,33
	VADEMECUM	2	0,36%	0,73%	4,50
	Others (7 brands)	≤ 2 each	≤0,36% each	≤0,54% each	-
Durable	SAMSUNG	126	22,87%	63,16%	4,36
	SONY	82	14,88%	53,90%	4,72
	LG	80	14,52%	41,02%	4,51
	PHILIPS	67	12,16%	45,92%	4,31
	PANASONIC	40	7,26%	34,66%	4,00
	DAEWOO	14	2,54%	3,81%	2,71
	ORION	12	2,18%	3,09%	3,33
	TOSHIBA	11	2,00%	5,63%	4,36
	BEKO	9	1,63%	2,72%	3,56
	NEI	9	1,63%	3,45%	2,22
	Others (48 brands)	≤ 6 each	≤1,09% each	≤2,72% each	-

In order to investigate the relation between unaided brand awareness and the two indicators of brand commercial performance (market share and brand loyalty from the perspective of repurchasing intention), bivariate regression models were tested for awareness and market share and, respectively, for awareness and repurchase intention: linear  $Y=a+b\cdot X$ , logarithmic  $Y=a+b\cdot \ln(X)$ , and exponential  $Y=a\cdot e^{b\cdot X}$ . The independent variable (predictor) was each time considered to be brand unaided awareness, while the dependent (predicted) variables consisted in market share and, respectively, brand repurchase intention.

In order to analyze relations between variables and to select the most appropriate model to explain the relation (if the case):

- firstly, *the existence of a relation* between variables was tested; in order to test the relation, the null hypothesis of “no relation” was rejected depending on the value of the statistical indicator  $p$ , with a statistical confidence level of 95% if  $p<0,05$ , or with a statistical confidence level of 99% if  $p<0,01$ ;

- secondly, *the intensity of the relation* (if the case) was evaluated, according to the tested model, considering the bivariate correlation coefficient  $R$  and the determination coefficient  $R^2$ , indicating the proportion of the dependent variable’s variation explained by the predictor’s variation;

- thirdly, the regression coefficients were determined (if the case) according to the tested model, and an *appropriate mathematical function* to reflect the relation was established.

**Table 3.**

**Tested models for the relation between unaided brand awareness and market share**

	Model	Relation – existence and intensity						Regression coefficients	
		R	R <sup>2</sup>			R	R <sup>2</sup>		
Non-durable	Linear	0,876	0,767	26,364	1	8	0,001	-0,030	0,470
	Logarithmic	0,653	0,426	5,935	1	8	0,041	0,262	0,067
	Exponential	<b>0,941</b>	<b>0,885</b>	<b>61,564</b>	<b>1</b>	<b>8</b>	<b>0,000</b>	<b>0,008</b>	<b>4,425</b>
Durable	Linear	0,963	0,927	102,083	1	8	0,000	0,005	0,297
	Logarithmic	0,904	0,817	35,744	1	8	0,000	0,183	0,050

	Model	Relation – existence and intensity						Regression coefficients	
		R	R <sup>2</sup>			R	R <sup>2</sup>		
Non-durable	Linear	0,876	0,767	26,364	1	8	0,001	-0,030	0,470
	Logarithmic	0,653	0,426	5,935	1	8	0,041	0,262	0,067
	Exponential	<b>0,941</b>	<b>0,885</b>	<b>61,564</b>	<b>1</b>	<b>8</b>	<b>0,000</b>	<b>0,008</b>	<b>4,425</b>
	Linear	0,963	0,927	102,083	1	8	0,000	0,005	0,297
	Logarithmic	0,904	0,817	35,744	1	8	0,000	0,183	0,050
	Exponential	<b>0,984</b>	<b>0,968</b>	<b>244,524</b>	<b>1</b>	<b>8</b>	<b>0,000</b>	<b>0,017</b>	<b>4,270</b>

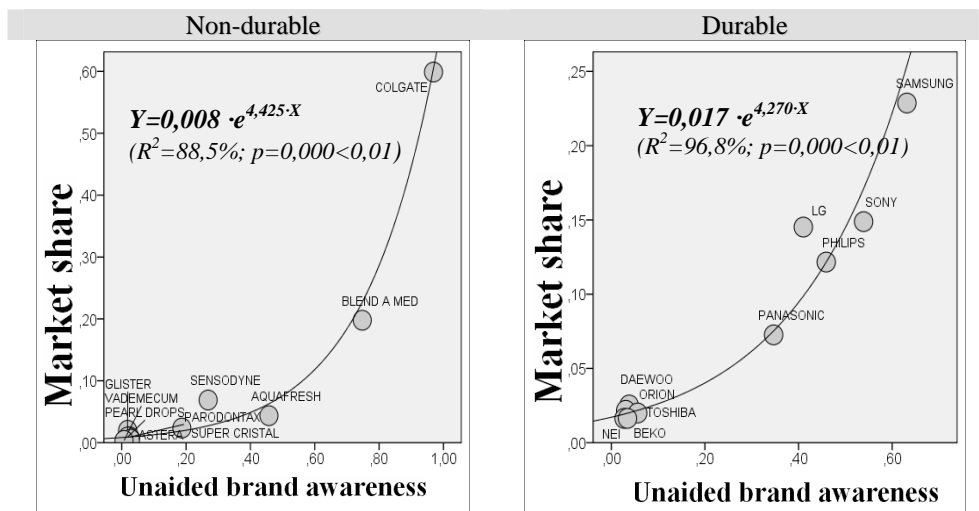


Figure 1. The relation between unaided brand awareness and market share

The first hypothesis to be tested was:

- $H_1$ : Brand market share is positively correlated with brand unaided awareness

The bivariate regression coefficients (Table 3 and Figure 1) prove, with a confidence level of 99% ( $p < 0,01$ ), that there is a positive, exponential like, relation between brand unaided awareness and brand market share, 88,5% of the second indicator's variation being explained by the first indicator's variation, in the case of durables, and 96,8%, in the case of consumables.

Even though market share can not be totally or exclusively explained by the level of unaided awareness, the emphasized exponential model shows that, both in the case of durables and non-durables, as unaided brand awareness increases/decreases, the market share also has a tendency to increase/decrease, but at a more and more accelerated growth/decline rate.

The exponential model suggests that a brand's market share responsiveness and sensitiveness to its unaided awareness evolution is stronger as the brand's market leadership has a higher level. Thus, unaided awareness growth has more visible, positive and spectacular effects on market share when the brand already has a high brand awareness (the marginal effect of awareness growth on market share is stronger when awareness is higher).

Theoretically, there is a mathematical limitation to brand awareness based market share growth, limitation given by the durable/non-durable nature of the product: according to the identified exponential models, the maximum value of market share, considering the maximum value of awareness, is

- $Y=0,008 \cdot e^{4,425 \cdot 1} = 0,6681$  (66,81%) for consumables, and, respectively,

- $Y=0,017 \cdot e^{4,270 \cdot 1} = 1,2159$  (121,59%) for durables (obviously market share can not exceed 100%).

Therefore, theoretically, a brand awareness based monopoly could be generated in the case of durables. Although these results should be adjusted considering several other factors which could impact market share, they reveal the fact that in the case of consumables, there is a stronger limitation regarding brand awareness based market share growth, in comparison to the case of durables.

The second hypothesis to be tested was:

- $H_2$ : *Brand repurchase intention is positively correlated with brand unaided awareness.*

The bivariate regression parameters (Table 4 and Figure 2) prove, with a confidence level of 95% ( $p < 0,05$ ), that there is a positive, logarithmic like, relation between brand unaided awareness and repurchase intention, in the case of durables (58,7% of the second indicator's variation being explained by the first indicator's variation). In the case of consumables the null hypothesis is accepted and therefore no such significant relation can be identified.

The logarithmic model suggests that in the case of durables, as unaided brand awareness increases/decreases, brand loyalty reflected through brand repurchase intention also has a tendency to increase/decrease, but at a more and more decelerated growth/decline rate, with a mathematical

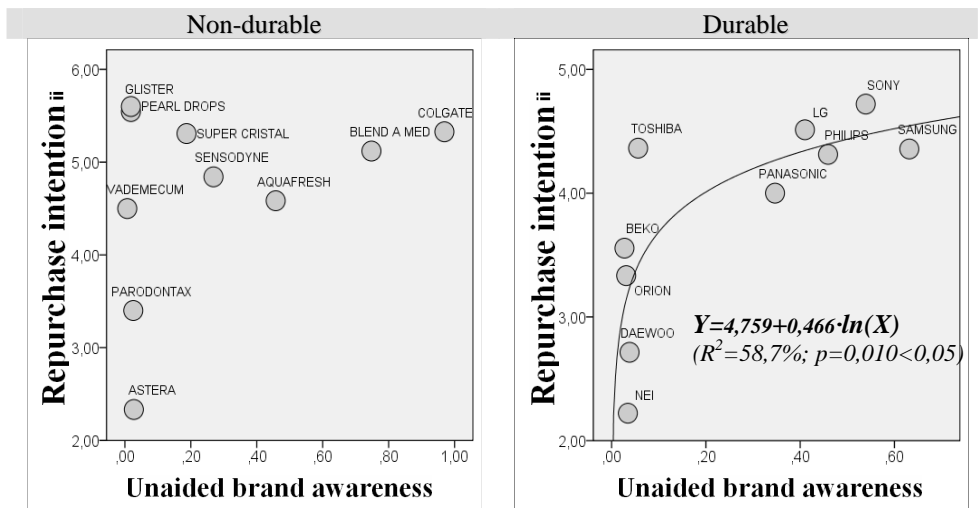
theoretical superior limit between 4 and 5 (considering the modified Likert scale from 1 = “definitely no” to 6 = “definitely yes”).

Therefore, the marginal effect of awareness growth on repurchase intention is as stronger and spectacular as awareness is lower (the lower the brand awareness, the more sensitive repurchase intention is to brand awareness growth).

**Table 4.**

**Tested models for the relation between unaided brand awareness and repurchase intention**

	Model	Relation – existence and intensity						Regression coefficients	
		R	R <sup>2</sup>	F	df1	df2	p	a	b
Non-durable	Linear	0,330	0,109	0,982	1	8	0,351	4,383	0,999
	Logarithmic	0,295	0,087	0,758	1	8	0,409	5,072	0,171
	Exponential	0,339	0,115	1,038	1	8	0,338	4,200	0,270
Durable	Linear	0,733	0,537	9,270	1	8	0,016	3,165	2,503
	Logarithmic	<b>0,766</b>	<b>0,587</b>	<b>11,388</b>	<b>1</b>	<b>8</b>	<b>0,010</b>	<b>4,759</b>	<b>0,466</b>
	Exponential	0,699	0,489	7,662	1	8	0,024	3,094	0,710



**Figure 2.** The relation between unaided brand awareness and repurchase intention

### **5. Conclusions, research limitations and future research directions**

The bivariate regression analysis revealed statistically significant positive relations between unaided brand awareness and brand commercial performance reflected in brand market share and brand repurchase intention (fundamental dimension of brand loyalty).

Moreover, the relation is existent and significant both in the case of durables and non-durables when considering the market share dimension of commercial performance, but limited to durables in the case of repurchase intention. The nature of the relation is exponential in the case of awareness based market share evolution, while for repurchase intention there is a logarithmic type of relation between unaided awareness and the analyzed brand loyalty dimension (repurchase intention).

Therefore, in order to significantly penetrate market segments and to increase own brands' market share, Romanian companies must understand the importance of enhancing brands' unaided awareness and act accordingly. Marketing integrated communication policies must be designed and implemented, policies among which advertising plays an essential role and customer relationship management is fundamental.

The impact of brand awareness on commercial performance also depends on the current level of awareness. Thus, when actual brand awareness is low, the growth of this dimension has a stronger impact on repurchase intention than on market share, while when current awareness has a high level, the marginal effect of awareness growth is more significant and intensive in the case of market share development.

Finally, certain research limitations and future research directions can be depicted:

- The results' significance is limited to a certain local area of the urban Romanian market. Even though we could, with certain limitation, extend the results to the overall Romanian urban market level, a more geographical extensive research should be conducted in order to reveal certain local consumer behavior specifics.

- The research method (ad-hoc survey) would have been more relevant if a panel were created and analyzed over time, so as consumer evolutions could be emphasized, as the Romanian market is a developing one.

- The research could be extended considering not only durables and consumables like those investigated, but also other specific types of tangible products and, of course, services, as significant differences would be expected to appear in that case.

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## THE TAX BURDEN IN EU-27

MARIA-ANDRADA GEORGESCU<sup>1</sup>

**ABSTRACT.** The present papers presents the problem of tax burden at the level of European Union between 2001 and 2006. The first part presents various opinions regarding the tax burden. The second part focused on the analysis of overall tax burden evolution over the period 2001-2006. The third part is focused on the overall picture of tax burden during 2006 and makes an overview regarding the three pillars that support the European fiscal system.

**Keywords:** tax burden, taxation, European Union, fiscal policy, tax revenues.

### 1. Definition and forms of tax burden

Considering that there are reasons for the state (public powers) to supply public goods and services, as well as to perform income transfers within society, one must agree that, in order to achieve this, the state requires funds/ resources. The financing methods of public expenses have changed in time, but there is no doubt that taxes are perennially and that, in the end, no one can avoid completely paying them (Hoanță, 2000, p. 150).

The natural consequence of establishing taxes in society was the experiencing of a tax burden by the taxpayers.

The constitutional principle of the need for taxation, to which historical reality is added, prove that for a society it is very difficult, if not impossible, to exist without taxes. In its turn, the honest taxpayer, with civic spirit, sees taxes as a necessary evil and consents to pay them (Hoanță, 2000, p. 161). However, when the taxes exceed certain tolerable limits, when they inhibit initiative or, worse, when they incite to fiscal rebellion and other such actions, the terms change. Then, we are in a situation in which the taxpayers fully feel the tax burden effects, paralyzing their normal behavior in economy and society (Hoanță, 2000, p. 161).

*Tax burden* is a concept closely related to that of taxation policy, being often used to describe the former level. The harshening or relaxing of

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the taxation policy is often spoken about. Obviously, it is a matter of increasing or lowering the level of taxation, thus modifying the tax burden. The level of taxation cannot be assessed in relation to the absolute volume of taxes, even if its evolution in time is followed. The tax volume may change in the conditions when the state does not modify its claims with respect to the taxpayers, the tax burden remaining constant. The level of taxation or the tax burden signify how burdensome are the taxes or, in other words, how heavy is the tax burden the taxpayers should bear (Tulai, 2003, p. 287).

In order to measure tax burden, the tax-to-GDP ratio is calculated.

It represents „an indicator for measuring the part of revenue extracted from production, which transit the budget by means of a mandatory and public assignment process, instead of being left freely at the disposal of private initiative” (Manolescu, 1997, p. 69). Or, as underlines by other authors, as well, the tax burden or the fiscal effort reflects, from an economic aspect, the value of redistributions as part of the revenue created in the real economy being taken over by the state (Corduneanu, 1998, p. 33).

As indicated above, tax burden is, generally, given by the level tax-to-GDP ratio. There are variations of this ratio, depending on the structure of the fiscal incomes considered. Thus, one can speak of *overall tax burden* and *tax burden in the strict sense*.

*The tax burden in the strict sense* is calculated taking into consideration only the fiscal returns to the state budget (at the central level and at the level of the local communities). However, it does not reflect the entirety of the obligations towards the state and the whole taxable revenue.

Therefore, *the overall tax burden* is calculated by taking into account, together with the taxes and duties owed to the central budget and to the local budgets, the social security contributions, as well. In theory, social security contributions differ from taxes with respect to the fact that contributions should be payments in exchange for social insurance services rendered to the individual, such as health or old age insurance. In practice, however, workers have little or no control over the level of coverage and have little, if any, way of switching funds to obtain the same level of social security insurance at a lower cost; moreover, social security systems often involve substantial redistribution between fund members. These elements tend to assimilate social security payments to taxes.

For a real image of tax burden, the determination of the overall tax burden is more correct.

There are also opinions according to which, to this wide measure of taxation expressed by the overall tax burden should be added the entire budgetary deficit, financed by indebteding the state, since the state loans are nothing other than delayed taxes or taxes cashed in with anticipation. This would be *the rate of extended taxation* (Tulai, 2003, p. 288; Hoanță, 2000, p. 166).

In fiscal practice there are used other derivate indicators for measuring the tax burden (at the national level), among which (Hoanță, 2000, p. 166; Tulai, 2003, pp. 288-289):

- *Rate of consolidated taxation* – eliminates certain tax bites with redundant character, for the purpose of expressing more correctly the part of tax revenue destined to finance the activity of the public administrations. The first level of consolidation consists of eliminating the social security contributions (SSC) and the taxes paid by the public administrations. The second level of consolidation is obtained through the elimination of all self-financed mandatory tax bites (meaning not only the ones incurred by the public administrations, but also those fed through the revenue transferred by the public administrations);

- *Rate of net taxation* – is obtained by eliminating from the mandatory tax bites the part spent by the state for the taxpayers' benefit in the form of social or other type of services for families or the individual and of subsidies granted to companies. Hence, only the mandatory tax bites necessary for the public administrations' functioning are taken into account, all elements merely transiting the public treasury (transfers, subsidies or allowances) being excluded. Such a rate of net taxation takes into account the tax reversibility phenomenon and the existence of negative tax.

Tax burden at the national level is technically determined by the needs of financing public expenses, and, as such, it is an objective tax burden. Apart from this burden, there is also a *psychological tax burden* (felt), which measures the tax tolerance threshold. It appears in the form of individual tax burden, established as the ratio between the total tax bites incurred by one taxpayer and the total income obtained by that individual prior to taxation. The level of tax burden differs from country to country and also from one taxpayer to the next, due to the difference of fiscal treatment and to the personalization of taxes depending on economic or social criteria.

Individual tax burden measures the sacrifice the taxpayer must consent to by paying taxes to the state. As a result, the expression of individual tax burden gives the possibility to take into account the subjective elements of social life.

Through its mere existence, taxes are able to modify the taxpayer's economic and social behavior, by means of the influence exerted on consumption and on its level of savings. From this point of view, the notion of marginal tax burden must also be considered; it is related to the existence of tax progressiveness. This type of burden must be treated separately from overall tax burden because there are essential differences between them. Thus, while overall tax burden may be high, the marginal rate may be low, and the other way around. Also, the reference to an average rate of tax burden may be insignificant without taking into account *the marginal burden*, which is, from psychological point of view, acutely felt by the taxpayer (Hoanță, 2000, p. 167).

Still, tax burden occurs, and it is difficult to make accurate differentiations between certain limits, as long as it remains tributary to certain random elements pertaining to the diversity of tax bites, the often occult character of their incorporation into prices, the volume of services the taxpayer receives from the community, which is very difficult to evaluate, the subjective elements, as well as the technical cashing in intentions, which annihilate the fiscal sensitivity of the taxable subject (Geffroy, 1993, p. 58).

The individual tax burden must not be analyzed solely in a mathematical, rigid manner, as the ratio between the revenues taken from the taxpayers and the primary incomes obtained by them. Hoanță (2000, p. 167) considers that the increase of the individual tax burden is relevant especially if it is analyzed in close correlation with the purchasing power of the net monetary incomes (remaining after taxation), namely the extent to which the individual incomes after taxation satisfy the needs of subsistence, leisure and saving/ investment.

Tulai (2003) gives a different tone to the observation made by Hoanță (2000), indicating that the purchasing power of the net income remaining after the direct taxation of the taxpayer's revenue and estate also depends on the level of indirect taxes it incurs when purchasing goods and services. Therefore, the real individual tax burden must be assessed in relation to the entirety of direct and indirect taxes which the taxpayer (natural person) incurs, even if not all of them are set by law as being his/ her burden.

Among the taxpayers, apart from the natural persons, there are the economic agents. The tax burden at the level of the economic agents occurs as the percentage ratio between the mandatory payments to the state which it must make and the value added by it during a period of time, generally one year.

In the structure of the mandatory payments, most of the time, there are included the tax on profit, the social security funds contributions, and other direct taxes owed on the estate to the local budget and included in the company's costs. Of course, the company transfers to the budget other taxes, fees and contributions, as well. But not all of them are incurred by it; VAT, the excises and the custom duties are not taken into account because the company recovers them from the consumer, who incurs them, paying them with the price of the products/ services purchased. These indirect taxes affect, however, the volume of sales and competitiveness by means of the prices, with direct repercussions on the variables taken into account in calculating the tax burden. The other payments, such as the social security contributions, the tax on buildings, terrains, means of transport, included in the cost of products and recovered through the price, have an indirect influence, through the level of costs, over the size of the profit, and, therefore, are also considered financial outflows for the company. To these there should be added the other contributions to the special funds, other than those for social security and protection, in order to have a real image of the tax burden at the level of the economic agent.

The company's tax burden depends, first, on the weight of each type of tax bite in the total tax bites, and, respectively, in the value added; and second, on the size of the rate of each type of tax bites.

## **2. Evolution of the tax burden in EU-27 over the period 2001 – 2006<sup>2</sup>**

EU-27 tax revenue in terms of GDP increased in 2006 by 0.6 percentage points compared to 2005, reaching roughly its 2001 level. The 2006 level was almost 1 percentage point higher than 2004 (the year for which the lowest value was registered over the period 2001 – 2006).

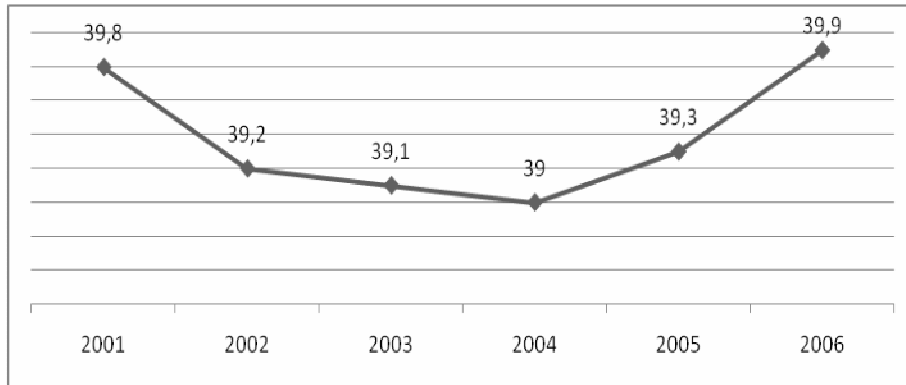
From 2001 to 2006 tax-to-GDP ratio generally followed a downward trend, turning upwards during the last two years (see Figure 1).

Examining the changes on a country by country basis, it becomes apparent that the overall stagnation in the average tax ratio masks rather different developments.

Figure 2 displays the changes in the tax-to-GDP ratios between 2001 and 2006 in percentage points of GDP (on the ordinate line), in comparison to the current levels in the year 2006 (on the abscissa). This manner of presenting the evolution is inspired by the "portfolio analysis" technique.

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<sup>2</sup> In the papers published by the European Commission and Eurostat, the data regarding Romania are supplied starting with year 2001, aspect which explains our choice of period covered.



Source: European Commission (2008); all data are GDP-weighted.

**Figure 1:** Total tax revenue in the EU-27 as a percentage of GDP, 2001 – 2006

Figure 2 below combines the change of the fiscality level – or tax burden - (%) in every EU member state – on the Ox axe – with the fiscality level in GDP (%) for the year 2006, on Oy axe.

To calculate the changes on Ox axe, the following formula was used:

$$\text{Change in taxation level for country } i = \frac{\text{Taxation level}_{2006(i)} - \text{Taxation level}_{2001(i)}}{\text{Taxation level}_{2001(i)}} \times 100$$

$$\text{Change of tax - to - GDP ratio for } i = \frac{\text{Tax - to - GDP}_{2006(i)} - \text{Tax - to - GDP ratio}_{2001(i)}}{\text{Tax - to - GDP}_{2001(i)}} \times 100$$

where:

Taxation Level<sub>2006(i)</sub> is given by tax-to-GDP ratio for 2006 for country “i”,

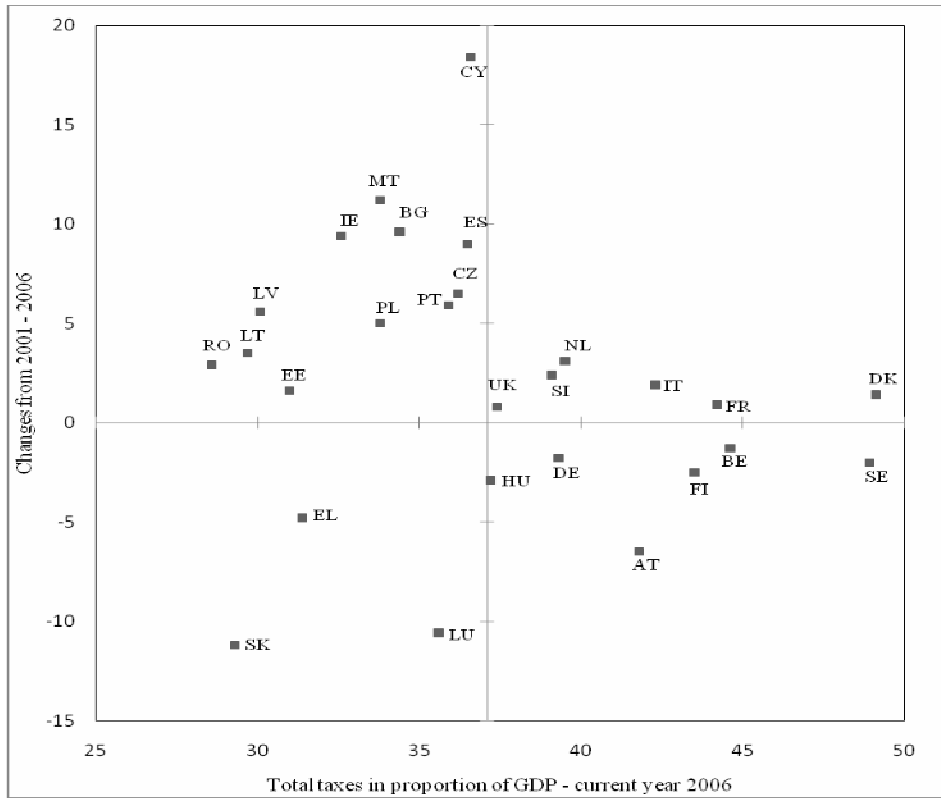
Taxation Level<sub>2001(i)</sub> is given by tax-to-GDP ratio for 2001 for country “i”,

“i” – every EU member country (i=1,...,27).

Comparing the taxation level for 2006 against the changes in taxation level between 2001 and 2006, a matrix with 4 entries results. The interception point indicates on Ox axe the average level for taxation inside EU-27 of 37.1%. It separates the countries with taxation levels above and under eu-27 average. On the Oy axe are represented the countries which

THE TAX BURDEN IN EU-27

registered (relative values) an increase or a decrease of taxation level between 2001 and 2006.



Source: Author's calculation on the basis of the data supplied by the European Commission (2008).

**Figure 2:** Tax-to-GDP ratios in 2006 and their change since 2001

A = top-left quadrant (low-average countries that have increased their ratio)

B = bottom-left quadrant (low-average countries that have reduced their ratio)

C = top-right quadrant (high-average countries that have increased their ratio)

D = bottom-right quadrant (high-average countries that have reduced their ratio)

Several facts are highlighted by this figure:

- *Quadrant A* – contains the most data points, namely 12 countries that registered increases of the taxation rate, but are still positioned below the EU-27 average. Here we can notice a concentration of the new Member States, respectively 9 countries (Bulgaria, Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Malta, Poland, and Romania). Out of them, Cyprus and Malta recorded upward trends (except for Malta in 2003 and 2006, where the ratio was marginally lower compared to the previous year), with the highest increases in the EU-27, of 5.7 and 3.4 percentage points, respectively, over the 6-year period, which represents, in relative size, an increase by 18.4% and, respectively, 11.2%. Also in this quadrant there are 3 ‘old’ Member States (Ireland, Spain, and Portugal), out of which Ireland stands out due to its increase by 2.8 percentage points, which represents, in relative size, an increase by 9.4% in the period considered;

- *Quadrant B* – is the least populated quadrant, containing only 3 recordings, distributed as follows: 1 new Member State (Slovakia) and 2 old Member States (Greece and Luxembourg). Out of the 3 countries, two are of special interest, namely Slovakia, which has reduced its tax-to-GDP ratio from 33% in 2001 to 29.3% in 2006, which represents, in relative size, a reduction by 11.2% (overall, over the entire 1995-2006 period, Slovakia stands out as the Member State that has carried out the most profound restructuring of its tax system, with the tax ratio declining by over one quarter; the country thus changed its ranking significantly, from being essentially in line with the old Member States’ average in 1995 at 40.2% of GDP, to having the second lowest ratio in EU-27 in 2006), and Luxembourg, which, even though an ‘old’ Member State, has registered a reduction of the tax-to-GDP ratio by 4.2 percentage points (from 39.8% in 2001 to 35.6% in 2006), fact that lead to the positioning of this country below the EU-27 average (it must be mentioned that during years 2001 and 2002, Luxembourg was situated, from the point of view of the tax burden, above the EU-27 average);

- *Quadrant C* – comprises six entries, out of which only one new Member State, respectively Slovenia, which, although was above the EU-27 average, continued to constantly increase its tax-to-GDP ratio in the period 2001-2006 (it is worth mentioning that in the interval 1995-2000, Slovenia reduced its overall tax burden from 40.2% to 38%). The other five registrations are represented by ‘old’ Member States (Denmark, France,

Italy, Netherlands and United Kingdom), but here one can see a relative stability of the tax-to-GDP ratio [as shown by the fact that they are located relatively close to the horizontal axis]. Only Netherlands recorded an increase higher than the other countries in this quadrant, by 1.2 percentage points, meaning, in relative size, by 3.1%;

- *Quadrant D* – has an identical distribution to quadrant C, respectively contains also six above-average countries, respectively five ‘old’ Member States (Austria, Belgium, Finland, Germany, and Sweden) and one new Member State (Hungary), which have managed to reduce their overall tax ratio. The countries from this quadrant are also closer to the horizontal axis, except for Austria, which registered a reduction by 2.9 percentage points, which represents, in relative size, a decrease by 6.5% of the tax ratio.

12 member states have increased their tax ratio and only 3 reduced it. The countries with low-taxation level tend to display large adjustments in either direction, upwards or downwards, whereas for the countries with a taxation level above the average the picture appears much more static.

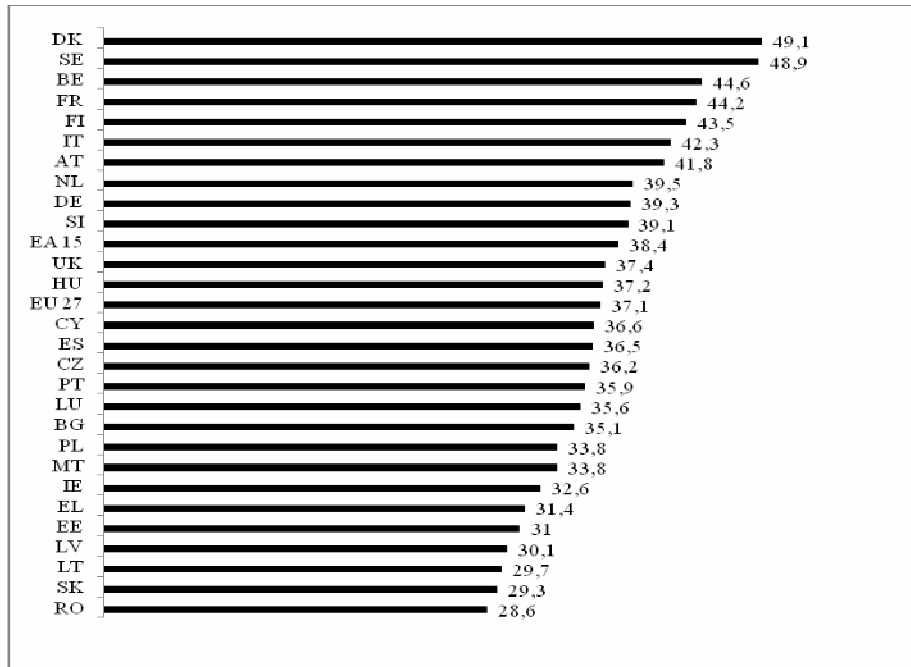
Between 2005 and 2006, tax revenue in terms of GDP rose in 17 out of 27 EU Member States and decreased in 10. As a result, the growths in tax revenue of a majority of the Member States were partially offset by the declines of the other countries resulting in an overall modest increase of the ratio at the EU-27 as a whole (Lupi, 2008). Among the EU Member States (between 2005 and 2006) Ireland (+1.8%), Italy (+1.7%), Cyprus (+1.1%), Latvia (+1.4%), and the Netherlands (+1.6%) recorded increases of their national tax revenue-to-GDP ratios by more than one percentage point compared to 2005, while three (Denmark, Luxembourg, and Slovakia) recorded reductions of more than one percentage point.

### **3. Structure of taxation in the European Union**

#### **3.1) Levels of tax revenue in 2006**

EU-27 tax revenue (including social contributions) of general government increased in 2006 to 39.9% of GDP-weighted average. Compulsory levies in the form of taxes and social contributions accounted for over 90% of general government revenue in the EU-27 in 2006 (Paternoster et al, 2008, p. 5).





Source: European Commission (2008)

**Figure 3:** Ranking of total tax revenue by countries in 2006 as percentage of GDP

As Figure 3 shows, there are wide differences in tax levels across the European Union. The tax-to-GDP ratio, showing the share of total tax revenues, including social security contributions, in gross domestic product, is the main aggregate indicator used to measure the overall tax burden. However, this indicator has certain limitations as a comparative measure across countries and over time. Among the factors which can affect the level and trend of the tax-to-GDP ratio are: the extent to which countries provide social or economic assistance via tax expenditures, rather than direct government spending, and whether or not social transfers are subject to tax.

The level of tax revenue in terms of GDP was highest in Denmark and Sweden (49.1% and 48.9% respectively in 2006) whereas it was generally lower in the new EU Member State, with the lowest share of 28.6% in Romania (over 20 percentage points of GDP lower than Denmark in 2006).

This difference in the level of the overall tax ratio (which includes social security contributions) reflects the significant differences within Member States in the role played by the state.

There are substantial differences in the total tax burden between the ‘old’ EU-15 Member States (i.e. the 15 countries that joined the Union before 2004) and the new Member States (i.e. the 12 countries that joined the Union in 2004 and 2007). As a general rule, tax-to-GDP ratios tend to be significantly higher in the ‘old’ EU-15 Member States: the first nine positions in term of overall tax ratio are indeed occupied by ‘old’ Member States. There are two exceptions; for example, Greece’s and Ireland’s tax ratios are over seven points below the weighted EU-27 average (39.9%).

Among the new Member States, Slovenia displayed the highest level of tax revenue reaching 39.1% of GDP (only 2 percentage points lower than the EU average). Also, Hungary (37.2%) has a level that exceeds the EU-27 average, but the remaining new Member States display overall tax-to-GDP ratios lower than the average: from the Czech Republic (36.2%, i.e. almost one percentage point below the average) to Romania (28.6%, i.e. 8.5 percentage points below the average).

It is interesting to note that the arithmetical average of the 27 countries is somewhat lower (37.1%) than the GDP weighted EU average (39.9%), because of the relatively low levels of GDP (and therefore low weight) for the countries which tend to have the lower tax revenue.

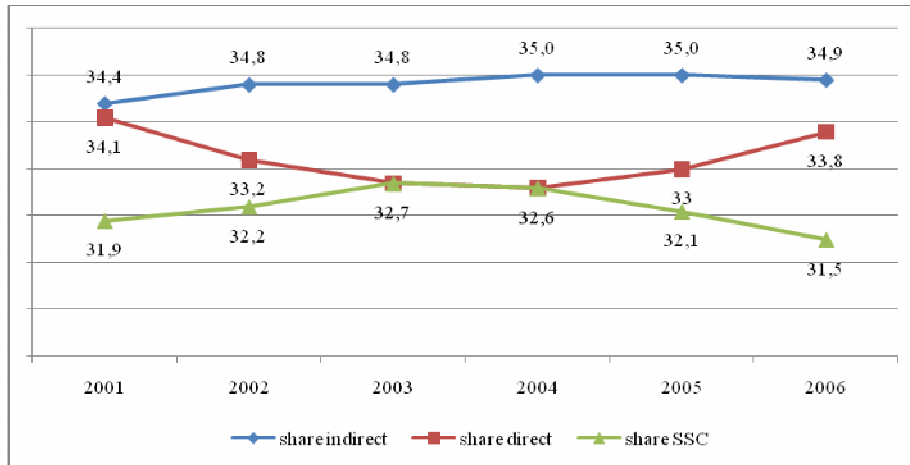
If one looks at tax levels in the narrow definition, excluding social security contributions, the situation is similar: the arithmetic average shows a level in 2006 at 26.6%, while the weighted average is 26.2% in the Euro area (EA-15). It is worth noting, however, that in the narrow definition, there is practically no difference in tax levels between the Euro area and the EU-25 (26.5%), highlighting that the higher taxation burden in the Euro area is limited to social security contributions. The very low tax levels in Romania, however, result in the EU-27 average for 2006 being 0.4 points below the Euro areas.

### 3.2) Revenue structure by type of tax

Tax revenue can be grouped into *three main categories or types*:

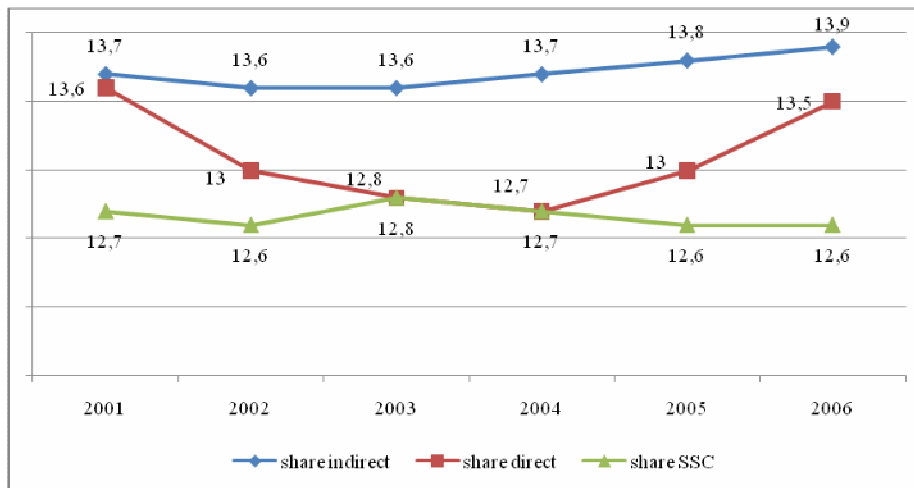
- ✓ *indirect taxes* defined as taxes linked to production and imports (such as value added tax – VAT);
- ✓ *direct taxes* composed by current taxes on income and wealth plus capital taxes, and
- ✓ *social contributions* that include actual social contributions (for paying into social security funds or other social insurance schemes) plus imputed social contributions.

The respective shares of these three components have been quite close over time, staying within the 30-35% range (weighted average).



Source: European Commission (2008). All data are GDP-weighted.

**Figure 4a:** Direct taxes, indirect taxes and social security contributions in % of total taxation



Source: European Commission (2008). All data are GDP-weighted.

**Figure 4b:** Direct taxes, indirect taxes and social security contributions in % of GDP

The ratio of indirect taxes to GDP increased in period 2002-2006. This increase is due to developments in VAT collection that represented about 8% of GDP in 2006.

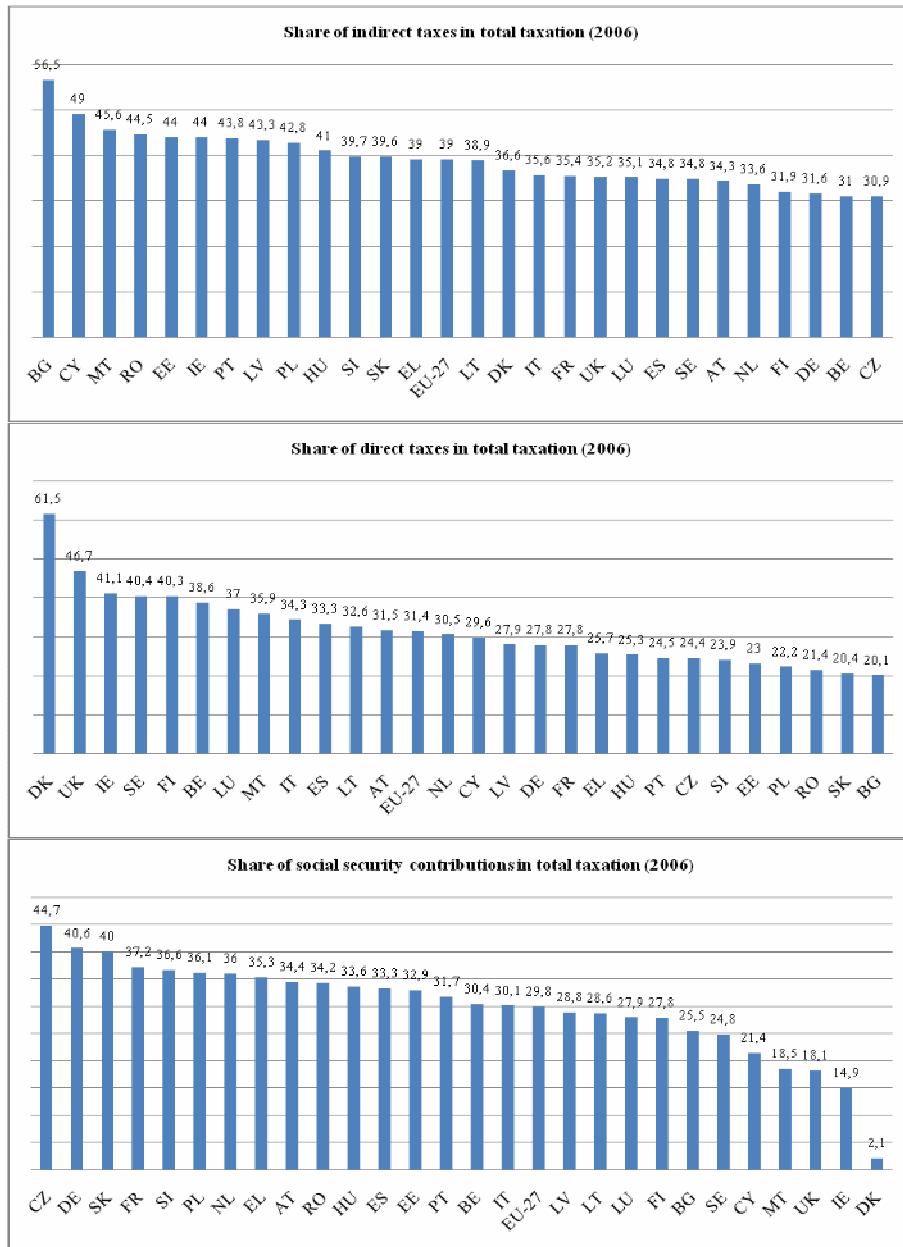
At 13.9% of GDP and 34.9% of total taxes in 2006 (weighted average), indirect taxes remain the main source of tax revenues in the European Union, followed by direct taxes at 13.5% of GDP (or 33.8% of total taxes). There also seems to be a trend in recent years towards more reliance on indirect taxes, as exemplified most recently by the German decision to increase VAT by three points and use part of the proceeds to cut social contributions (Carone, Schmidt and Nicodème, 2007). A third important source of taxes is represented by social security contributions, which represent 12.6% of GDP and 31.5% of total taxes in 2006 (weighted average). This source undergoes in the period 2001-2006, as well, a reduction as weight in total taxation, the same as during the previous period, when the need to decrease labor costs materialized in a decline in social security contributions.

During the interval 2001-2006, 21 countries increased their share of indirect taxes in the total. In case of direct taxes, their share increased in 10 countries and decreased in 17, and in what concerns the SSC, their weight in the total taxes increased in 11 countries and reduced in 16.

The phenomenon of augmentation of the share of indirect taxes in total tax revenues, established at the Union level and, especially, among the new Member States, is not so much the direct result of fiscal policy measures, as the effect of certain economic factors which reflect the consolidation of certain market mechanisms, as well as the higher rates of economic growth at the regional level (Negrescu and Comanescu, 2007, p. 104).

Figure 5 illustrates the structure of the countries' tax revenues, seen from the perspective of the choice made with regard to the use of the fiscal instruments at their disposal. What comes to attention in this figure is the strong diversity of situations, fact that indicates the fiscal option of the EU-27 countries.

Generally, the new Member States have a different structure compared to the EU-15 countries; in particular, while most 'old' Member States raise roughly equal shares of revenues from direct taxes, indirect taxes, and social contributions, the new Member States often display a substantially lower share of direct taxes in the total. The lowest shares of direct taxes are recorded in Bulgaria (only 20.1% of the total), Slovakia (20.4%)



Source: European Commission (2008). For EU-27 I used the arithmetic average.

**Figure 5:** Structure of tax revenues by major types of taxes, in % of the total tax burden

and Romania (21.4%), which represents a difference from the EU-27 average by more than 10 percentage points. One of the reasons for this difference can be found in the generally lower tax rates applied in the new Member States for corporate tax and personal income tax (European Commission, 2008). For instance, Bulgaria applies a statutory tax rate on corporate income of 10% (together with Cyprus, the lowest rate in Europe), while Romania and Slovakia apply a flat rate both for personal income, and for corporate income, of 16% and, respectively, 19%. Contrary to common belief, the bulk of the difference in direct tax-to-GDP ratios is to be attributed to a lower collection of personal income taxes in new Member States, and not to a lower corporate income tax (Carone, Schmidt and Nicodème, 2007).

The low share of direct taxes in the new Member States is counterbalanced by higher shares of indirect taxes and social contributions in total tax revenues. The highest shares of indirect taxes are indeed found in Bulgaria, where the share is well over half of revenue, and Cyprus, where it is very close to the 50% mark.

As for social contributions, high shares of 40% or more are found in the Czech Republic and Slovakia, although France and Germany are also characterized by a similar level.

Also among the 'old' Member States (EU-15) there are some noticeable differences. The Nordic countries (i.e. Sweden, Denmark and Finland) as well as the United Kingdom and Ireland have relatively high shares of direct taxes in total tax revenues (over 40%). In Denmark and, to a lesser extent, also in Ireland and the United Kingdom the shares of social contributions in total tax revenues are low. In Denmark, there is a specific reason for this low share: most welfare spending is financed out of general taxation (European Commission, 2008). This required high direct tax levels and indeed the share of direct taxation to total tax revenues in Denmark is the highest in the Union (61.5%). Germany's system represent in a sense the opposite of Denmark's; Germany shows the highest share of social contributions in the total tax revenues, while its share of direct tax revenues on the total is the lowest in the EU-15. France, too, has a high share of social contributions and a correspondingly low share of direct tax revenues, compared to the EU-15 average.

Some statistical facts stand out. While the correlation between the share of indirect taxation is only about -.25, the correlation between social security contributions and direct taxation reaches -.87, indicating some form of trade-off between these two forms of revenues and probably reflecting a

choice in the source of financing of social security expenditures as well as the fact that indirect taxes are relatively harmonized across Member States. This is confirmed by the correlations between these sources in percentage of GDP (Carone, Schmidt and Nicodème, 2007).

Despite the fact that indirect taxes are harmonized at EU level, there is substantial variation in the amount of revenues raised from consumption taxes. “The heavy reliance on consumption taxes, notwithstanding some administrative issues they raise, has several advantages:

(i) consumption taxes are relatively neutral towards saving and investment decisions;

(ii) they do not discriminate between imports and locally-produced goods and do not affect external competitiveness (as long as they are based on the destination principle); and

(iii) they provide a symmetric treatment of labor, transfer and capital income, thus creating fewer disincentives to equity better than income taxes” (Joumard, 2001, p. 17).

### **Conclusions**

There are many reasons why government tax revenue varies from year to year as a percentage of GDP. A more in-depth analysis than the one presented here would be needed to explain the causes of such variations in particular countries. However, in general the main reasons are changes in economic activity (affecting levels of employment, sales of goods and services, etc.) and in tax legislation (affecting tax rates, thresholds, exemptions, etc.). It should be noted that, even using accrual methods of recording, the effects of changes in legislation or economic activity tend to have a delayed impact on tax revenue (Lupi, 2008).

Fiscal policy is regarded as a component of national sovereignty, and the fiscal systems of the Member States differ substantially, due to the differences with respect to their economic and social structures and to the conceptual differences regarding the role of taxation, in general, and of a certain tax, in particular.

On the grounds of the facts presented, it can be concluded that there is no clear tendency of the European states to finance their expenses preponderantly from direct taxes or preponderantly from indirect taxes. Also, the policy regarding social contributions is very different, being also influenced by factors such as tradition and customs.

The present paper sets the ground for a further analysis in order to see determine the effects of the current financial crisis on this matter in the years to come.

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## **STUDY CONCERNING PROFESSIONAL TRAINING OFFER IN THE ROMANIAN COMPANIES INVOLVING IN TEXTILE AND CLOTHING SECTOR**

**CARMEN GUT<sup>1</sup>, MARIUS BOTA<sup>2</sup>**

**ABSTRACT.** At the present time, a very important issue is the employment problem in manufacture industry, especially in textile and clothing industry. This sector is very important for our country because it contributes almost with 20% from the Romanian total export and absorbs 1/5 from the total employment in Romanian industry. Technological development and growing competition on the market ask for continuous improvement of knowledge and skills of the employees, not only for securing their work places but also for increasing the companies' competitiveness and economic development of the society. The present paper aims to analyze the employers' attitudes concerning continuous professional training and the participation to such programs. For this analysis data were collected based on questionnaires and were processed with SPSS 11.0 software.

**Keywords:** professional training, employment, textile and clothing industry, labor force

### **INTRODUCTION**

The starting point of our investigation was the situation of the Romanian companies involved in the clothing sector after the total liberalization of the world trade with textiles and clothing.

The textile and clothing industry is one of the oldest in the world. The oldest known textiles, which date back to about 5000 B.C., are scraps of linen cloth found in Egyptian caves. The industry was primarily a family and domestic one until the early part of the 1500s when the first factory system was established. It wasn't until the Industrial Revolution in England, in the 18th century, that power machines for spinning and weaving were

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invented. The clothing industry is a very global industry, with constantly increasing trade flows all over the world. The Romanian clothing industry has a long tradition and experience from the 19<sup>th</sup> century, as well as a good fame around the world as its products are present in many countries of the world (Bota, Cosma, 2007).

Since 1 January 2005, The WTO (World Trade Organization) Agreement on Textile and Clothing no longer exist. There was implemented a measure stipulated for some time, that is the total abolishment of the quota system for the imports of textiles and clothing. Before the Agreement took effect, a large portion of textiles and clothing exports from developing countries to the industrial countries was subject to quotas under a special regime outside normal GATT rules (Bota, 2005).

The total liberalization of the world trade with textiles and clothing opened the way to the imports from Asia as well as to the interest of the big companies for the cheap workforce in these areas. The Asian firms (Chinese, Indian) and the companies from Turkey became powerful competitors on both domestic and foreign markets. China is the biggest player on the UE-25 market with a share of 31.5% in the European market. China is the most competitive production base for the time being due to an immense oversupply of labor in the rural provinces and young educated workers who make possible the keeping of the wages at very low levels (Bota, Cosma, Negrusa, 2007).

The Romanian textile and clothing industry has a long tradition and experience from the 19<sup>th</sup> century, as well as a good fame around the world as its products are present in many countries of the world. This was possible due to an initial supply with modern machines and equipment most of which were imported. If, at the beginning, the technical equipment was the same as the one used abroad, during 1981-1990 there was a dramatic drop in the technology imports. On an international level, during the same period, the mechanical textile machines became completely automatic. Only after 1990 was there a progress in the modernization of the Romanian clothing factories. This effort, though considerable, is far from ensuring a satisfactory system of technical equipment in the Romanian factories.

The textile and clothing industry is a major part of the manufacturing industry and has two components: the textile industry and the clothing industry. It can be say that the majority of the textile products are the raw material for the companies from clothing industry. In order to establish the

role of the textile and clothing industry for the Romanian economy it is sufficient to look at the following statistics.

According to the declarations of the people in the field, over 80% of the companies involved in the clothing industry work exclusively in outward processing trade system – OPT (in Romania OPT is called “lohn system”), and a great part of them produce under well-known international brands (Kenzo, Givenchy, Valentino, Versace and many others). The work performed in lohn is done according to the following pattern: the foreign company uses only Romanian workforce, the raw materials, technology and know-how are imported. The worldwide clothing producers have preferred to bring the raw material to their Romanian partners and to take the finished products after a certain period of time established in the agreements.

A main characteristic of the textile and clothing industry is the fact that using a huge number of employees, especially in clothing companies, the cost of labor force represents a big quota of the total production cost.

**Table 1.**

**The evolution of average number of employees in textile and clothing sector**

	1990	1995	2000	2001	2002	2003	2004	2005	2006
<b>Textiles</b>	414	185	95	98	91	84	78	67	65
<b>% textile in total T&amp;C industry</b>	61.6	49.5	26.7	25.3	23.2	21.7	21.7	20.6	20.8
<b>Clothing</b>	258	189	261	290	302	303	281	259	247
<b>% clothing in total T&amp;C industry</b>	38.4	50.5	73.3	74.7	76.8	78.3	78.3	79.4	79.2
<b>Textile + clothing (T&amp;C) industry</b>	672	374	356	388	393	387	359	326	312

Source: NIS, Romanian Statistical Yearbook 2007.

As we can see from the Table 1, in 1990 the average number of employees in textile and clothing enterprises was about 672.000. In 2005, we can notice that this number has decreased to half of the number registered at the beginning of the transition time (1990). The principal cause of this situation is the decrease of the national production in textile sector. According to official data, if in 1989 Romania had a production of 282.000 tons of threads for fabrics, in 2001 the production represented only 45.000 tons of threads, while the natural silk production that was of 90.000 tons in 1989, was stopped at the level of 2001.

In 1990, the textile enterprises had 61.6% from total employment in textile and clothing industry, remaining for the enterprises involving in clothing sector only 38.4%. In 2005, we can observe that this situation is different from the beginning of '90s, the total employment in textile industry representing only 20.8%.

Technological development and growing competition on the market ask for continuous improvement of knowledge and skills of the employees, not only for securing their work places but also for increasing the companies' competitiveness and the economic development of the society. Thus, education is not any more a process limited to the ages between 3 and 24, but becomes a life-long learning process. As a consequence more importance should be attached to the educational system of continuous professional training since well educated people with better qualification adapt more rapidly to technological changes and ensure economic adaptiveness and growth of productivity on the long run (Gut, 2008).

Taking into account the importance of professional training, both for the employers and the employees, we have undertaken a study on *employees' professional training in Romanian companies of the manufacturing industry*. The main goal of the present study is the analysis of the demand for continuous professional training among employers and employees of these companies and the efficacy of these training programs. In this paper we are going to present the employers' attitudes concerning professional training and the employees' participation to such programs.

In Romania, studies have been made concerning the characteristics of continuous professional training (National Institute of Statistics, 2001) and the demand and offer of continuous professional training (INCSMPS, 2004 and Ministry of Labour, 2004). Thus *The exploratory study regarding the demand for lifelong learning*, made as part of component 2 of the PHARE project of *Institutional Twinning – Assistance for the consolidation of policies concerning continuous professional training*, has aimed at analyzing the demand for professional training with employers and employees of two economic sectors – tourism and constructions. Research on certain aspects regarding professional training of the employees was undertaken as part of a study made by Osoian, *A practical study on occupying and using human resources at territorial level* focusing on active industrial firms in the Cluj County (Osoian, 2005). Similarly, as part of the research study centered on the *Impact of direct foreign investments in the*

*processing industry upon the occupation of labor force*<sup>3</sup>, certain aspects concerning the professional training of the employees' of these firms have been analyzed.

### **MATERIAL AND METHOD**

We used for our investigations exploratory, descriptive and causal research. To realize this paper we used information from Romanian Statistical Yearbook, from WTO for International trade statistics and Eurostat for European statistics.

In order to a closely identification for some problems and the specific ways to solve those it is been used exploratory research. To obtain information about situation already existing on the market it is been used descriptive research.

In order to analyze how lifelong learning is organized in companies from the manufacturing sector, we made a study during the period 2007-2008. The study has aimed to analyze the demand for continuous professional training among employees and employers of the manufacturing industry, following the pattern of the one carried out by INCSMPS [6]. For the purpose of this study two types of questionnaire were drawn up: one for employers and one for employees.

The period encompassed by the study was November 19<sup>th</sup> 2007-January 20<sup>th</sup> 2008. Most questionnaires (95%) were administered directly and only a small part (5%) through e-mail addresses of the firms. The data obtained through questionnaire were processed with SPSS 11.0 programs. In carrying out the study we focused on 45 companies in the textile and clothing industry, NACE 17-18 (29% textile companies and 71% clothing companies). In order to make sure the firms are active and to check if they handed in their financial reports for the previous year (2006), we accessed the site of the Ministry of Economy and Finance ([www.mfinante.ro](http://www.mfinante.ro)).

### **RESULTS AND DISCUSSIONS**

Employers fully understand the importance of taking part in professional training, which is apparent in their answers to the following question of the questionnaire –*What do you think is the impact of your employees participating in professional training on the development and the increase of performance of your company?*

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<sup>3</sup> Project coordinator - prof Maria Birsan, 2006-2007.

**Table 2.**

The importance of the employees participating in professional training according to NACE sections

			What do you think is the impact of your employees participating in professional training on the development and the increase of performance of your company?		Total
			very important	important	
NACE Sections 17	Count		8	5	13
	% within		61.5%	38.5%	100.0%
18	Count		16	16	32
	% within		50.0%	50.0%	100.0%
Total	Count		24	21	45
	% within		53.3%	46.7%	100.0%

Source: own calculation based on questionnaire data

**Table 3.**

The importance of the employees participating in professional training in companies according to the number of their employees

**Crosstabulation**

			What do you think is the impact of your employees participating in professional training on the development and the increase of performance of your company?		Total
			very important	important	
The distribution of companies according to the number of their employees	0-9	Count	5	4	9
			55.6%	44.4%	100.0%
	10-49	Count	12	9	21
			57.1%	42.9%	100.0%
50-249	Count		4	6	10
			40.0%	60.0%	100.0%
over 250	Count		3	2	5
			60.0%	40.0%	100.0%
Total	Count		24	21	45
			53.3%	46.7%	100.0%

Source: own calculation based on questionnaire data

We can notice from Table 2 that the questioned companies involved bought textile and clothing industry declared that professional training is *very important* (53.3%) or *important* (46.7%) for the development and the increase of the company's performance. Tacking into account the size of the companies (Table 3) it can be notice that the participation of the company's

employees in professional training it is very important, especially for micro, medium sized and big enterprises.

The study revealed that a great number of companies (almost 70% of the questioned firms) offer professional training to their employees. This is shown by employers' answer to question – *Do you offer professional training programs to your employees?* - which analyses the companies' readiness to offer professional training courses for their own employees (Table 4).

**Table 4.**

The willingness of employers to invest in the professional training of their own employees

			Do you offer professional training courses for your employees?		Total
			no	yes	
NACE Sections	17	Count	5	8	13
		% within	38.5%	61.5%	100.0%
	18	Count	9	23	32
		% within	28.1%	71.9%	100.0%
Total		Count	14	31	45
		% within	31.1%	68.9%	100.0%

Source: own calculation based on questionnaire data

**Table 5.**

Professional training courses for employees offered by companies according to the number of employees

			Do you offer professional training courses for your employees?		Total
			no	yes	
The distribution of companies according to the number of their employees	0-9	Count	4	5	9
			44.4%	55.6%	100.0%
	10-49	Count	7	14	21
			33.3%	66.7%	100.0%
	50-249	Count	2	8	10
			20.0%	80.0%	100.0%
	over 250	Count	1	4	5
			20.0%	80.0%	100.0%
Total		Count	14	31	45
			31.1%	68.9%	100.0%

Source: own calculation based on questionnaire data

We found that employers' interest in the importance of professional training programs is greatly paralleled by their actions proper. That is how a great number of companies (almost 70% of the companies questioned) do offer to their employees such programs. This is very beneficial both for the employees (improving their skills and knowledge, securing their work places) and for the company (enhancing competitiveness and the firm's performance).

The means of improving the employees' level of professional qualification vary from one company to the other, according to the line of each (their main field of activity), their sizes, and their financial and human resources available.

Analyzing the distribution of companies according to the number of their employees it appears that the share of those offering professional training programs is growing in conformity with the size of the company. As a consequence if micro companies (0-9 employees) offer professional training programs only in 55.6%, this percentage rises to 80% in the case of big companies (with 250 employees and over). We find this tendency natural, taking into account that the quantum of financial resources that companies are willing to invest in professional training is higher with big companies as compared to smaller ones due to scale economies available to big companies [4]. That is to say the bigger a firm, respectively the higher the volume of production, the lower the share of set costs per product unit (scale economy).

Relative to the percentage of the employees which have taken part to training courses, the results are presented in the Table 6:

**Table 6.**

The employees included in training programs during 2006-2007

Which is the share of employees that was included in training programmes during the time span 2006-2007?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	under 25%	29	64.4	67.4	67.4
	26-50	10	22.2	23.3	90.7
	over 75%	4	8.9	9.3	100.0
	Total	43	95.6	100.0	
Missing	System	2	4.4		
Total		45	100.0		

Source: own calculation based on questionnaire data



As we can see from the table above, more than half of the companies in view declared that between 2006-2007 they had offered professional training programs to less than 25% of the total number of the employees and only 8.9% of the firms had offered training to almost all employees (over 75% of the total number of the employees).

One question of the questionnaire - *Which are the main forms of organizing professional training of the employees?* – aimed at analyzing the most important means of organizing the professional training of the employees in the textile and clothing industry. The results are presented in Table 7.

**Table 7.**

The main forms of organizing professional training of the employees

	<b>Forms</b>	<b>Total (%)</b>
1.	Organizing courses at the company	18.5
2.	Organizing courses at the company, with private suppliers	26.2
3.	Organizing courses outside the company, by taking part in courses organized by the labor force occupation agencies	10.8
4.	Direct training at work place	32.3
5.	Self-training	12.2

Source: own calculation based on questionnaire data

The main form of employee training is represented by *direct training at work place* (1/3 of the companies chose this form of training), since this form serves in the first place the interest (benefice) of the company and then the one of the employees. This training consists in offering indication by the immediate superior (foreman, department leader) or by a co-worker. Second comes the *organization of courses at the company with private suppliers*, this form being preferred by 26.2% of the total of companies analyzed. The significant number of companies using these two forms of training is due to the low costs they imply.

Another question - *Which are the main types of professional training programs that your employees took part in?* - analyzed the main types of programs that employees took part in, in order to see whether these programs were mainly meant for the benefice of the employers or the employees (Table 8).

**Table 8.**

## The main types of professional training programs

	<b>Types</b>	<b>Total (%)</b>
1.	Qualification	27.9
2.	Re-qualification	3.3
3.	Initiation	16.4
4.	Improvement	34.4
5.	Specialization	18.0

Source: own calculation based on questionnaire data

From the analysis of the tables below we find that the main types of programs that employees took part in are the *improvement programs* and the *qualification programs* (in most companies more than 27.9% of the employees took part in this type of training). We consider that these types of programs serve mainly the employer's interest since they aim at qualifying the employees and improving their knowledge concerning the work they presently do for the company. The main areas of the employees' professional training are shown in the Table 9.

**Table 9.**

## Main areas of employees' professional training per total number of companies

	<b>Areas</b>	<b>Total (%)</b>
1.	Development of personal skills and competence	32.7
2.	Improving work place activity	54.5
3.	Acquiring new managing practices	10.9
4.	Enhancing loyalty to the company	1.8

Source: own calculation based on questionnaire data

Irrespective of the company's line professional trainings aimed mainly at *improving work place activity* of the employees (in 54.5% of the cases). We can conclude again that companies focus mainly on areas they perceive as beneficial for the company in the first place and only after that for the employees. In other words companies are less interested in using training as a means of enhancing employees' loyalty to the company, which is proved by the small share of courses aiming at this aspect (1.8%).

In what follows, we will present the problems employers are most often confronted with when they want to organize or to offer professional training programs.

**Table 10.**

Constraints of the employers concerning investment and organization of professional training

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
the lack of financial resources	44	1	5	2.98	1.422
the lack of professional training offers at local level	44	1	5	3.30	1.374
the lack of correlation between the content of the course and the need of the company	44	1	5	3.00	1.181
the length of the course	44	1	5	2.48	1.171
the timetable of the course	44	1	5	3.16	1.293
the low quality of the courses	44	1	5	2.86	1.231
the existence of low incentives in our legislative system	44	1	5	3.05	1.311
Valid N (listwise)	44				

(Minimum 1 = the least often; Maximum 5 = the most often)

Source: own calculation based on questionnaire data

Analysis of Table 10 shows that the employers' main constraints are represented by *the lack of professional training offers at local level* followed by the timetable of the course, which overlaps with working hours. Consequently we repeatedly stress the importance of a better coordination between the timetable of the courses and the employees' working hours. In the same way suppliers of professional training programs have to adapt their training offers to the actual needs of companies and to offer to employees the qualifications required by the market in the respective geographical area. Another constraint of the employers is *the lack of stimulating legislation*, which makes us consider a legislative amendment to be necessary so that to motivate both employers and employees regard the offer and participation respectively in professional training.

## CONCLUSION

It may be easily noticed a general Lohn migrating tendency from the western to the eastern part of Europe according to the successive accession of the countries to the European Union. Sooner or later the “Lohn system” will be moving from Romania to other countries and some of the Romanian companies will disappear and the surviving ones should make a good business strategy.

The solution everyone agrees on is that the clothing companies start producing under their own brand. Under this new brand the companies should be present on both domestic and foreign markets. By using their own strength and benefiting of know-how obtained from famous companies that act in the clothing sector for a long time, as well as of the qualified and educated workforce, the Romanian companies will have to build up a modern business that may compete with the EU companies.

Employers consider participation in professional training important and very important because it serves both the interests of the individual (improvement of knowledge and skills, securing her/his job) and those of the company (enhancing competitiveness and performance of the company).

We found that employers’ interest in the importance of professional training programs is greatly paralleled by their actions proper. The main form of employee training is represented by *direct training at work place* (1/3 of the companies chose this form of training) and the *organization of courses at the company with private suppliers*.

We also found out that the main types of programs that employees took part in are the *improvement programs* and the *qualification programs*, and the main areas of employees’ professional training are *development of personal skills and competence* and *improving work place activity*.

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## **CULTURAL TOURISM IN TRANSYLVANIA AND IN THE COUNTY OF CLUJ UNDER THE SIGN OF THE ECONOMIC CRISIS**

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**ABSTRACT.** The present paper dealt with the manner how cultural tourism is perceived and how it can develop under the conditions of the economic crisis situation. A primary stage of a research has been carried out – respectively, 196 questionnaires have been tested on a randomly selected population of Romanians. This phase represents a starting point of further researches on this topic. The results can be considered valuable but not fully representative. The main concerns of our paper are: the present-day development of cultural tourism in Romania and Transylvania (especially in the County of Cluj); Romanian visitors' attitude towards: culture and tourism; their holiday consumption behavior; their budgetary allocations for tourism and culture; the notoriety of several types of destinations from Romania, Transylvania and Cluj County. Our conclusions try to signal a few things that must be done concerning tourism and cultural development in Romania while confronting the economic crisis.

**Keywords:** tourism, culture, destination, economic crisis, Romania, Transylvania.

### **1. Introduction**

The global economic crisis has managed to stir up the spirits all over the world. It has become a well-known fact and it is recognized as a true reality. In this context, Romania, too, must be granted attention. The almost twenty years of ongoing transition have not yet managed to grant our country a genuine healthy functional economy. After a few years of hopes for a better living (supported by the encouraging economic development of the past few years – based on the economic reforms that were carried out

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during the late '90s), Romanians are now threatened by the financial crisis. We believe that our country must make use of one of its most valuable assets: tourism. As we have already mentioned many times before, Romanian tourism is in deep need of a proper promotion strategy.

Despite the fact that authorities have kept declaring tourism a first-rank priority, nothing was done in this respect. More sad examples can be given. During the time-span of 2000-2004, the social-democratic party while reorganizing the government, decided to integrate the Ministry of Tourism into that of Transportations and Constructions. Later on, after 2004, the liberals, together with the Democratic Party, decided to reorganize the Ministry of Tourism several times by transforming it into a national agency, subordinated to the huge Ministry of Small and Medium-Sized Enterprises and Liberal Professions. Finally, beginning with December 2008, Romanian tourism has (once again) its own ministry<sup>3</sup>. Roughly, throughout the past ten years, there have been made several attempts to improve Romania's image as a country (both abroad and inland) and to establish its identity as a tourist destination. Unfortunately, all what really happened was to initiate many branding processes, which never cam to an end but that managed to consume huge financial resources, with very poor outcomes.

Figure No 1 reveals the current situation of Romania's international tourism. Despite the fact that the arrivals of foreigners have increased, compared to the previous year, we ought to mention the fact that the overall arrivals in accommodation facilities decreased as shown in Table No 1:

**Table 1.**

**Activity Trends at the Level of the Accommodation Facilities**

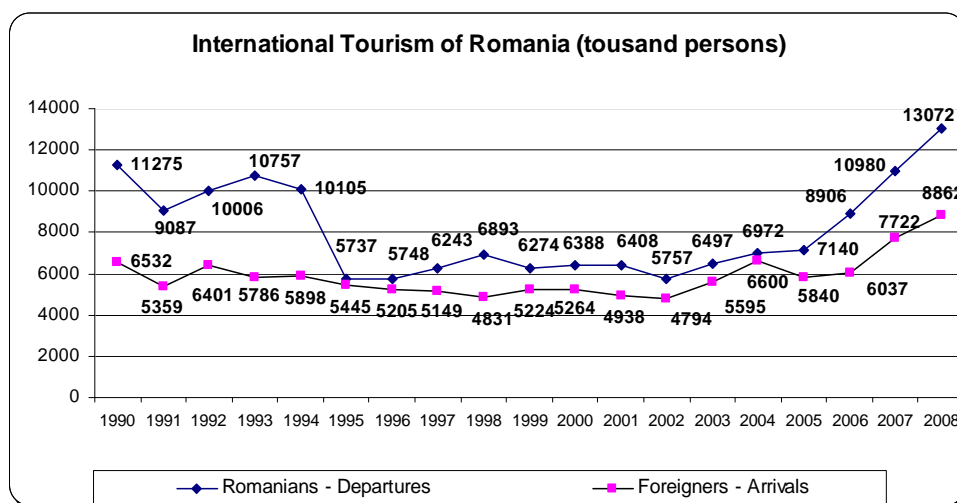
<i>thousand persons</i>	<b>Tourist arrivals in 2008/2007</b>			<b>December 2008/2007</b>	<b>January 2009/2008</b>
	2007	2008	2008/2007		
<b>TOTAL</b>	6971.9	7125.3	+ 2.2 %	- 8.6 %	- 10.6 %
<b>Romanians</b>	5421.0	5659.4	+ 4.4 %	- 8.1 %	- 8.4 %
<b>Foreigners</b>	1550.9	1465.9	- 5.5 %	- 11 %	- 11.2 %

Source: NIS [February and March 2009]

It becomes obvious that the first signs of a decreasing trend become visible in the already rather poor tourist activity of our country. To this unfortunate situation, one must also notice the increasing demand of the

<sup>3</sup> Between 2000 and 2003 a Ministry of Tourism also existed.

Romanian population for destinations from abroad. Despite the fact that Romanians were addressed a first promotional campaign (that presented tourism in Romania as a lesson of life – aiming to increase the interest the people towards inland destinations), the number of Romanians who travel abroad continues to increase dramatically.



Source: own calculations, based on NIS [*Tempo Online; Buletine Lunare Statistice*]

**Figure 1.** International Tourism of Romania (Arrivals of Foreign Visitors and Departures of Romanian Citizens)

The purpose of this paper is to reveal the potential of Romania’s tourism to develop on behalf of the country’s cultural heritage. The above-mentioned campaign, *Romania, a Lesson of Life*, is in our opinion the first official attempt to “bet” on culture. The message was clearly one that raised the problem of the educational function of tourism. It is no secret at all but a universally admitted truth that tourism plays a key role in educating the people. In this respect, we believe it is necessary to initiate a critical analysis of how Romania’s cultural heritage is appreciated by its own people. For the time being, we have decided to take a glance at Romania’s cultural tourism, by focusing on Transylvania and, within this region, on the County of Cluj.

Let us take a short glance at the tourist activities organized by the Romanian tourism agencies for the native residents during the 2003-2007 time-spans:

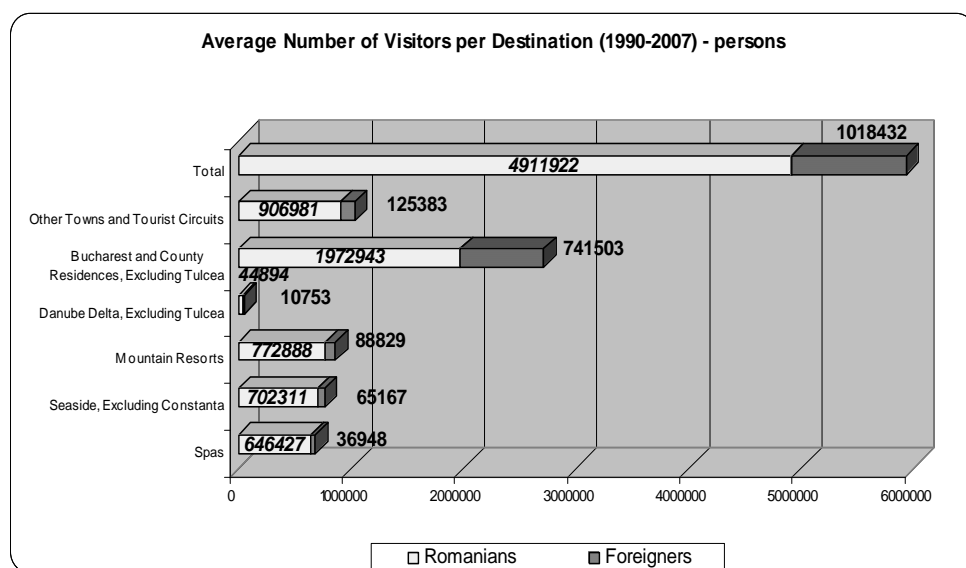


Table 1a.

**Internal Tourist Actions Organized by Tourist Agencies**

	Tourists (Thousand Persons)					Average Duration of Stay (Days)				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
<b>Internal tourist actions - total</b>	<b>1234</b>	<b>1429</b>	<b>1210</b>	<b>1276</b>	<b>1249</b>	<b>7.9</b>	<b>7.0</b>	<b>7.6</b>	<b>7.4</b>	<b>7.4</b>
Mountain area - towns	341	372	293	277	264	5.2	4.4	5.5	5.9	4.7
Spas area	334	317	288	312	310	13.7	13.4	14.4	14.0	13.0
Seaside area	318	389	332	349	378	7.6	7.3	7.4	7.1	7.0
Mountain area - villages and alpine tourism routes	89	121	76	90	69	5.8	4.8	6.0	4.6	4.9
Historical areas	50	61	44	46	44	2.5	2.7	3.3	2.6	4.3
Religious pilgrimage areas	4	4	13	15	13	2.1	2.3	1.5	1.6	1.6
River cruises	18	44	54	72	38	1.8	3.0	1.1	1.0	8.8
Diverse circuits	5	12	37	48	65	2.3	2.5	2.9	3.6	3.2
Other areas	75	109	73	67	68	3.6	2.8	3.0	3.1	3.6

Source: NIS [Tempo Online]



Source: own calculations, based on NIS [Tempo Online]

**Figure 2.** Average Number of Visitors, by Types of Tourists and per Destination, for the Time Span 1990-2007

Table 2.

## Arrivals of Tourists per Destination and Their Average Duration of Stay

	M.U	Total	Tourist Destinations					
			Seaside	Spas	Mountain	Danube Delta	County Residences	Other Localities
<b>2006</b>								
Arrivals	thou.	6216	686	702	883	55	2982	908
foreigners	thou.	1380	62	36	97	12	1016	157
Overnight stays	thou.	18992	3746	5454	2062	140	5753	1837
foreigners	thou.	3242	445	142	234	28	2093	300
Indices of functioning capacity net	%	33.6	39.8	51	22.2	25.5	32.4	20.9
Average duration of stay	days	3.1	5.5	7.8	2.3	2.6	1.9	2
foreigners	days	2.3	7.2	3.9	2.4	2.3	2.1	1.9
<b>2007</b>								
Arrivals	thou.	6972	796	742	998	74	3310	1052
foreigners	thou.	1551	58	36	119	20	1144	174
Overnight stays	thou.	20593	4055	5442	2218	146	6583	2149
foreigners	thou.	3586	347	157	286	34	2412	350
Indices of functioning capacity net	%	36	45.7	51.7	24	26.6	35.4	23
Average duration of stay	days	3	5.1	7.3	2.2	2	2	2
foreigners	days	2.3	6.0	4.4	2.4	1.7	2.1	2.0

Source: Based on NIS [ASR 2008, Chapter 20]

Unfortunately, as the data in Tables 1a and 2, respectively in Figure 2 reveal, the contribution of those tourist activities which should account for cultural tourism is rather poor. We have highlighted the types of tourist activities organized between 2003 and 2007 by travel agencies that have at least connection with the analyzed category of tourism, respectively, the average numbers of visitors by types of tourists (Romanian and foreigners), per destination, for the time-span 1990-2007. A few observations need to be made:

- visiting of historical areas is the single activity that is entirely specific to cultural tourism; it can mainly be associated to tourism in county residences and other towns;
- tourism actions carried out in religious pilgrimage areas primarily focus on the religious aspects but are also very close to the cultural character

of tourism; it mainly appears in the case of tourism in other towns and other tourist circuits;

- diverse circuits refer to tourism circuits that do not necessarily refer only to cultural activities (they might, as well, include other types of activities and attractions); it corresponds to the categories county residences and other towns and tourist circuits;

- tourism activities in mountain areas (in towns, and villages), respectively spas or Danube Delta mainly refer to sporting activities, natural areas, cures, health and spa, and active tourism; still, they may also imply a cultural component of lesser impact;

- destinations found under the other areas category may also, at some point, include cultural tourism;

- the average duration of stay (especially in the cases of county residences and other towns) was, both in 2006 and 2007, a rather short one (of 1.9 to 2.0 days for all visitors and of 1.9 to 2.1 for foreigners); such values can only be associated to business tourism or transiting. Under the sign of the economic crisis, local authorities should become aware of the fact that their towns and cities ought to reposition themselves as cultural destinations and must develop coherent promotional strategies; depending on business and transit tourism cannot truly grant development.

## **2. Material and Method**

Due to the fact that the Romanian National Institute for Statistics does not collect data concerning the tourists' purposes of travel, we have decided to conduct our own investigations. Moreover, the matter of culture has been very much ignored. Of course, under the conditions of the financial crisis this state of being cannot be expected to improve.

In order to be able to sketch the image of Transylvania's cultural tourism potential and exploitation we have reached the decision to conduct a questionnaire-based research. This paper is based on the results obtained from 196 subjects, who offered their complete answers over the Internet. A previous research [Coroş, 2006] was carried out among foreigners. We have tried to comply with the quota-based sample of that research, and we managed to pretty much meet the established requirements. [Coroş, 2006: 26] Moreover, our present research is also completed by the outcomes of another investigation. By the means of an online questionnaire, we managed to obtain the opinions of over 1100 young persons (mainly aging between 18 and 40 years) concerning Transylvania's positive and negative aspects. [Coroş, 2009] The results of our researches have led us to the conclusion that Transylvania enjoys a positive image and that it is generally perceived

as a cultural destinations. This idea is also strengthened by the fact that Romania / Transylvania was the host of a major European event: Sibiu – *The European Capital of Culture of 2007*. It is compulsory not let tourists forget this special destination. The following paragraphs are going to present different aspects concerning tourism and culture in Romania, Transylvania and in the County of Cluj.

According to the Law No 5 of 2000 Romania's cultural heritage is represented by: over 680 exhibits and values of national cultural interest and heritage that enjoy a huge diversity: 197 churches and monastic ensembles; 36 architectural monuments and ensembles; 11 castles, mansions and palaces; 70 urban architectural ensembles; 20 historic centers and archaeological sites; 7 tourist objectives / areas and sites are included in the UNESCO World Heritage. Most of these assets are situated in Transylvania.

It seems that bureaucracy makes it rather difficult to find out the manner how local authorities have decided to finance tourism and culture. The Law of the National Budget establishes the following amounts of money:

**Table 3.**

**Budgetary Allocations for Tourism and Culture (thousand Lei)**

	2008	2009	2009/2008
Ministry of Tourism	40,392	397,302	+ 833.60 %
Ministry of Religious Cults, Cultures and National Heritage	1,007,518	1,132,220	+ 12.38 %

Source: Săptămâna Financiară [2009, No 195].

Unfortunately, it is impossible to find out how these sums are distributed in Transylvania. Moreover, it seems that tourism is present only at national level, as for example, it does not appear in the budget established by the City Council and Hall of Cluj-Napoca; nor is it possible to find out how the allocated money was spent:

**Table 4.**

**Budgetary Allocations for Cultural Expenditures (thousand Lei)**

	2008	2009
Culture, Recreation and Religion (Total)	41,769	42,889
Municipal House of Culture	1,200	1,400
Expenditures outside the local budget	13,764	2,338

Source: Primăria Municipiului Cluj-Napoca [HCL 3/2008, HCL 122/2009].

Local officials [Primăria Municipiului Cluj-Napoca, website information regarding culture] present Cluj-Napoca as a cultural center of national importance. Below, we are going to try to complete the list of the City Hall [promotional materials from the Tourist Info Center of Cluj-Napoca] and to name the most significant elements that contribute to the promotion of culture in our city; there must be mentioned:

- the two dramatic theaters (the “Lucian Blaga” National Theatre and the Hungarian State Theatre);
- the two operas (the National Romanian Opera and the Hungarian State Opera);
- the Puppet Theatre “Puck”;
- the National State Philharmonic “Transylvania” and the “Gheorghe Dima” Conservatory;
- the four houses of culture (the Students’ House of Culture, the Municipal House of Culture, Casa Tranzit, and Casa Universitarilor);
- the network of museums (the National Museum of Transylvanian History, the National Art Museum, the Pharmacy Museum, the Ethnographic Museum of Transylvania, the “Romulus Vuia” Ethnographic Park, the “Emil Racoviță” Museum of Speleology, the museums of “Babeş-Bolyai” University: Botanic, Mineralogy, Paleontology, Zoology, Vivarium, the museum of the university, and the museums of the University of Agricultural Sciences and Veterinary Medicine the “Emil Isac” Memorial House);
- the “Alexandru Borza” Botanical Garden – the second European botanical garden from the point of view of its scientific value and importance, respectively, due to its beauty;
- the key libraries of the city: the Central Academic Library “Lucian Blaga”; the Cluj Branch of the National Academy Library; the “Octavian Goga” County/Public Library.

It is compulsory to point out the fact that the “official list” (posted on the website of the City Hall) seems to be rather poor; unfortunately, this situation only comes to confirm the authorities’ lack of interest and strategy concerning the declared development of culture and tourism; we dare associate it to ignorance. Below we are going to highlight [Casa Municipală de Cultură; *Zile și nopți, Șapte seri*, digital Mini Map, *Cluj-Napoca Recommended Walking Tour*] those cultural elements that were not mentioned on the webpage in the section dedicated to culture:

- the universities of Cluj-Napoca:

- six state universities: “Babeş-Bolyai” University, “Iuliu Hațieganu” University of Medicine and Pharmacy, the Technical University, the University of Agricultural Sciences and Veterinary Medicine, the “Gheorghe Dima” Music Academy and the “Ion Andreescu” University of Arts and Design;
- several private universities: “Dimitrie Cantemir” Christian University, “Bogdan Vodă” University, Sapientia University, the Hungarian Protestant Theological Institute; “Avram Iancu” University;
- cultural organizations and assemblies: Romanian Writers’ Association; Romanian Artists’ Association;
- institutes: the “George Barițiu” Institute for History; the “Sextil Pușcariu” Institute, etc;
- the National Center of Cinematography and an important network of cinemas: Republica, Arta Eurimages, and Victoria, completed by the more recent multiplexes: Cinema City (Iulius Mall) and Cinema Odeon (Polus Center);
- cultural centers: British Council, the French Cultural Center, the German Cultural Center; the Italian Cultural Center; the Polish Cultural Center; the Korean Cultural Center; the Japanese Cultural Center; the Chinese Cultural Center; the Austrian Cultural Center; “Sindan” Cultural Center; Noua Acropolă; “J. F. Kennedy” American Center; “Heltai Gaspar” Foundation; etc;
- Cluj-Napoca can be proud to also host [*Cluj-Napoca City Guide*]:
- an important number of religious edifices of great cultural value: “St. Michael” Roman Catholic Church; “St. Stephen” Reformed Church; the Franciscan Monastery and Church; “St. Mary” Metropolitan Orthodox Cathedral; “Transfiguration of God” Greek-Catholic Cathedral of the Minorite Church and Convent; the “Resurrection” or “Bishop Ion Bob” Greek-Catholic Church (the oldest Romanian church of the city, 1803); “Calvaria” Church (earth fortification); “St. Peter” Church; the Piarist or University Church; the Neologist Synagogue; the Orthodox Church on the Hill (the first Orthodox church form Cluj-Napoca); “St. Joseph” Greek Catholic Chapel; etc;
- many beautiful and renowned monuments and statues: King Matei Corvin monument (the winner of the Great Prize at the Paris World Exhibition of 1900); “Saint George Killing the Dragon”; “Carolina” Obelisk; the “Shot Silhouettes” (monument dedicated to the memory of the martyrs of the events in December 1989); the “Transylvanian School” statuary group; the statues of Mihai Eminescu and Lucian Blaga; “Baba Novac” monument; “Mihai Viteazu” equestrian statue; the monument of the “Memorandists”; the

“Horea, Cloșca and Crișan” statuary ensemble; the “Cross on the Hill” monument; “Lupa Capitolina” with Romulus and Remus; or the controversial statues of Avram Iancu or “Glory to the Romanian Soldier”;

- a great variety of historic heritage buildings (mainly those situated in the old city-center, today’s Unirii Square and nearby this perimeter (between Avram Iancu and 21 Decembrie 1989 streets), especially in the area of nowadays Universităţii, M. Kogălniceanu, and I. C. Brătianu streets):

- mansions and palaces: the Bánffy Palace (one of Romania’s most valuable and important Baroque edifices; nowadays it hosts the National Art Museum); the Jósika Palace; the Rhédey Palace; “Babeş-Bolyai” University (monumental eclectic building); the Academicians’ House or the Academic College (representative cubist architectural style); the Teleki Palace; the Toldagi-Korda Palace; the Reformed College; the Courts of Justice; the National Theatre; the building of the Protestant Theological Institute; the Palace of the Prefecture; the building of the “Brassai Sámuel” High School; the Palace of the Central Post Office; Székely Palace (neo-gothic style); the building of the former “Collegium Marianum” (today’s Philology); the Palace of the City Hall (eclectic style); the Old City Hall Palace; Urania Palace; etc;

- present-day and former hotels: “Central-Melody” Hotel, the building of the Ex-“New York” and former “Continental” Hotel; “Biasini” Hotel; the former “Astoria” Hotel (today the building houses the headquarters of the Cluj County Branch of the Chamber of Commerce); etc;

- the Academic Medical Clinics from the Clinicilor perimeter (pavilion-type of clinics);

- houses: Mauksch-Hintz House (that houses the Pharmacy Museum); the Roman Catholic Parish House; the Báthory Apur Seminary; the Piarist Convict; the Old Prefecture; the Goldsmith’s House (the best preserved Old-Renaissance town house of Cluj-Napoca); The Boksai House; the building of the National Museum of Transylvanian History; the building of the Central Academic Library “Lucian Blaga”; etc;

- Medieval vestiges: the “Matei Corvin” Memorial House (today it houses the University of Arts and Design); the Citadel (impressive Baroque strengthened fortress, built in a five-point-star plan); the Tailors’ Tower, the Firemen’s Tower; the city wall; etc;

- many diverse cultural events of local, national or international notoriety [*Studentie.Ro*]:

- *TIFF – Transylvania International Film Festival*;

- *Toamna Muzicală Clujeană* – classical music festival
- *DeLaHoya* international festival of electronic music;
- *Baroque Music Festival*;
- beer festivals (spring and autumn);
- the *Puck Anima-Fest* – puppet-show festival;
- International “Lucian Blaga” Festival;
- *ManInFest* Theater Festival;
- *Modern Cluj Festival* (contemporary music);
- the *International Johann Strauss Festival*;
- the Ball of the Opera;
- the *International Guitar Festival*;
- the Spring of Coffee Shops and bars – cultural events and urban entertainment;
- the Festival of Lights; etc.

We have chosen to focus on presenting the cultural heritage and offer of the city of Cluj-Napoca because of the fact that we have presumed that this enjoys a higher notoriety, being a little better promoted than that of the rest of Cluj County. Still, we ought to briefly mention the most important cultural attractions (sites or events) of the county [*Wikipedia; Ropedia.Ro*]:

- tourist attractions:
- fortresses: Celtic settlement (Apahida); Roman Casters (Turda, Cășeiu, Gilău); Roman ruins (Petrești); Bologa; Cuzdrioara; Dăbâca; Liteni; Cetatea Fetei (Florești);
- palaces and castles: “Octavian Goga” Memorial House and museum (Ciucea); Bánffy (Bonțida, Borșa, Răscruci, Gilău); Kemény (Jucu de Sus); Béldy (Geaca); Bocksai (Aghireșu); Mikes (Săvădisla); Jósika (Moldovenești); Kemény-Bánffy (Luncani); Schirling (Cornești); Teleki (Luna de Jos); Wass (Țaga); Wass-Bánffy (Gilău);
- mansions: Iara; Măgura Ierii, Ocolișel; Surduc;
- churches and monasteries: Reformed-Calvin Church (Dăbâca, Izvoru Crișului, Luncani); Orthodox church built by Ștefan cel Mare (Feleacu); Nicula Monastery; Evangelic Church (Turda); Armenia Catholic Church (Gherla; it hosts a painting of Rembrandt); Reformed fortified church (Huedin, Florești);
- monuments and statues: the monument raised for the memory of the martyrs of the Bobâlna uprising;



- museums: “Octavian Goga” Memorial House and museum (Ciucea); History Museum (Turda, Dej, Gherla, Iclod); the museum of the Nicula monastery; Village Museum (Iclod);
- theatres: Romanian State Theater of Turda;
- cultural events:
- Annual Fair from Negreni;
- Turda Fest;
- Interethnic folkloric festival (Viştea);
- other folkloric festivals and cultural events organized in the county are very poorly promoted.

### 3. Results and Discussions

Before any attempt of analyzing the people’s attitudes towards culture, we focused on their tourist behaviors. First of all, we were interested to find out when and where they prefer to travel:

**Table 5.**

**Percentages of Destination Choices (Percentages of Choice)**

		Seaside	Mountains	Rural	Monasteries	Spa	Home + Other
Christmas & Winter Break	Romania	0	30	13	0	2	56
	Abroad	3	42	5	1	2	47
Easter Break	Romania	2	9	16	6	3	66
	Abroad	7	10	15	7	7	54
Summer Break	Romania	57	21	5	2	8	7
	Abroad	58	8	2	2	4	28
The 1 <sup>st</sup> of May	Romania	8	28	16	1	10	39
	Abroad	13	14	5	1	13	55

On behalf of the obtained results, several conclusions may be drawn:

- most Romanians tend to spend their Christmas breaks at home, together with their families; they sometimes travel to the countryside (mainly because of family relations); they choose mountain resorts for the New Year break; it is obvious that they prefer to practice winter sports abroad (especially ski in Austria and in the Slovak Republic);
- when it comes to their Ester breaks, Romanians prove to be even more conservative; most of them celebrate the Resurrection at home or in the countryside, together with their families; still, inland and outbound pilgrimages tend to become a habit for some persons (somewhat over 3 %);

youngsters, who do not yet have their own families, choose to spend their Spring breaks in the mountains;

- by far the most desired summer destination is the seaside; authorities should pay more attention to better motivating Romanians to travel to the Black Sea coast, rather than abroad; mountains attract important numbers of tourists, too; still, very many persons head off for foreign destinations (generally European countries);

- the 1<sup>st</sup> of May usually brings a long weekend, thus an increasing number of Romanians tend to take short breaks; tourist agents ought to better exploit the potential of the native offer, especially due to the short time tourists dispose of.

While Romanians so not seem to be very interested to experience the feeling of the Christian holidays away from their homes, foreigners tend to very much appreciate a Christmas in Maramureş or Easter celebrations within the monasteries of Northern Moldova. [Coroş, 2006] The well-preserved traditions and the great hospitality of the locals can be exploited on these tourists.

When asked how often they take into consideration local, respectively foreign destinations, the distribution on the investigated persons' answers was as follows:

**Table 6.**

**Preference of Homeland vs. Foreign Destinations (Percentages)**

	Always	Most of the times	Often	Sometimes	Rarely	Very rarely	Never
Homeland	13	40	18	17	6	5	2
Abroad	7	21	19	25	8	13	7

One may easily notice that – probably – mainly due to financial restrictions, Romanians still tend to take quite often into consideration the local offer; unless something is going to be done soon concerning quality, Romanian tourism is going to loose these clients in favor of its main competitors (who offer competitive packages at attractive prices).

In order to broaden the image, we also asked the people to mention where they spent their last three holidays (in terms of holidays and not necessarily years); still, most persons gave answers that suggested only one vacation per year (mainly during the summer). Their responses are presented in the table below, according to the mentioned destinations:

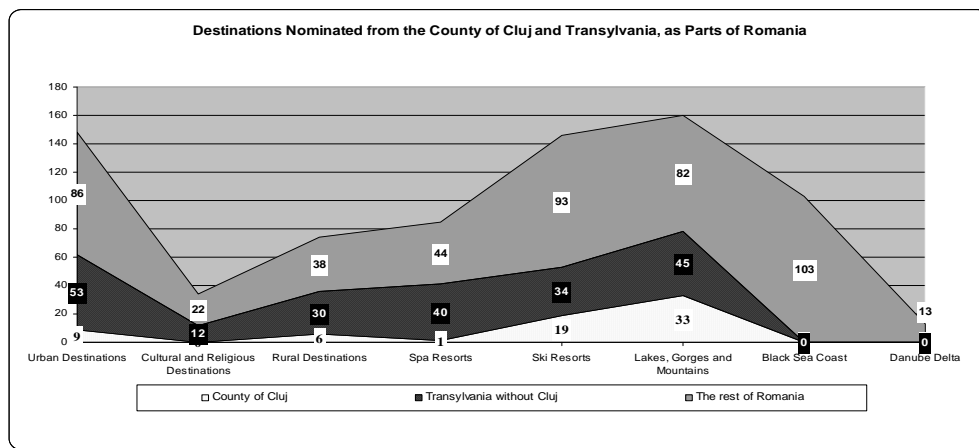
**Table 7.**

**Last Three Holiday Destinations (Numbers of Destinations)**

	The second last vacation	The time before last vacation	Last vacation
At home	35	20	9
In Romania	79	97	142
Abroad	89	76	104

It is worth to point out that the number of persons who do not travel registers a decreasing trend. On the other hand, Romania seems to enjoy a constant moderate growth, while that of the abroad destinations is a more spectacular one. Generally speaking, one ought to notice that tourism demand increases.

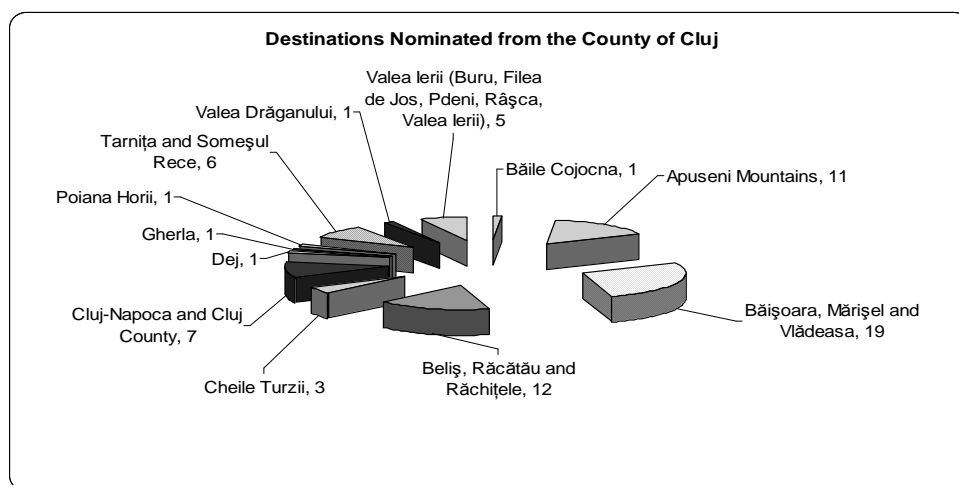
Further on, we were interested to identify the most frequented Romanian destinations. We are going to present the responses according to the responses mentioning destinations belonging to: the County of Cluj, Transylvania (except for Cluj but including Banat, Crişana and Maramureş), and other Romanian destinations:



**Figure 3.** Romanian Destinations Most Often Mentioned

One may easily notice that the top of the preferred Romanian destinations is dominated by the Black Sea resorts (fact that was also confirmed by the NIS, as previously shown), the mountain resorts (both for

natural beauty and resources, and for winter sports, too – especially ski), and by urban destinations (probably, mainly for business, entertainment and shopping). Surprisingly, cultural destinations do not seem to attract too many people. We tried to obtain a more accurate appreciation of the tourism offer of the county of Cluj, based on the “Romanian” and abroad nominations. Of the 196 respondents, 8 did not mention any native destination they would consider, as opposed to 32 who made no nomination for an outbound destination. We received 544 nominations of Romanian tourist destinations, and 446 potential destinations from abroad. Regarding the homeland potential demand, we may mention that: the County of Cluj is quite well represented, with 68 nominations, of the 322 Transylvanian spots, 15 answers included general categories, and 207 referred to other Romanian destinations (especially Black Sea, Bucovina and Prahova Valley).



**Figure 4.** Destinations Belonging to the County of Cluj

It is encouraging to notice that Cluj enjoys a fairly good notoriety despite its poor promotion as a tourist destination. Even though this research study cannot claim to be representative, it helps us identify at least some of the aspects appreciated by tourists from the region’s tourism offer. The obtained results are going to be used for the fundamentation of our further investigations. Moreover, most of the mentioned destinations belong to the category of local interest resorts, with a few exceptions (Apuseni Mountains and Beliș reservations).

Romania's mountainous area enjoys a high appreciation and notoriety among tourists. Several reasons can be identified but we tend to believe that the short distance and relatively low prices are the main mobiles of this situation. Still, authorities must acknowledge the fact that the lacking quality of the provided services and the underdeveloped infrastructure do not contribute at all to the region's international competitiveness.

Despite the fact that tourism investors have wrongly chosen to focus on business tourism (in urban areas, and not only), Transylvania's offer tends to also be associated to cultural tourism. In fact, Sibiu – the European Capital of Culture for 2007 – played a key role in this respect.

Given the living reality of Romania's tourism situation, we decided to briefly analyze the manner how tourists regard culture as part of a tourism offer. We would like to mention the fact that, according to the received answers, revealed that Transylvania's cultural offer was appreciated as satisfactory to fair, while that of the County of Cluj enjoyed a better evaluation, as good.

Below (in the following three figures and one table) we have chosen to present the situations concerning the: museums, churches and castles and citadels from Cluj County, respectively the notoriety of any other type of tourist attraction considered by the visitors.

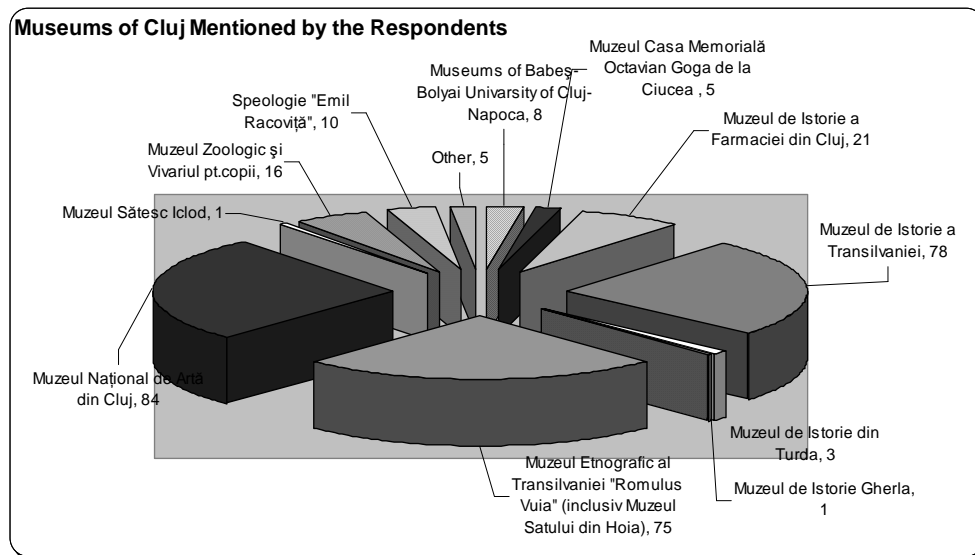
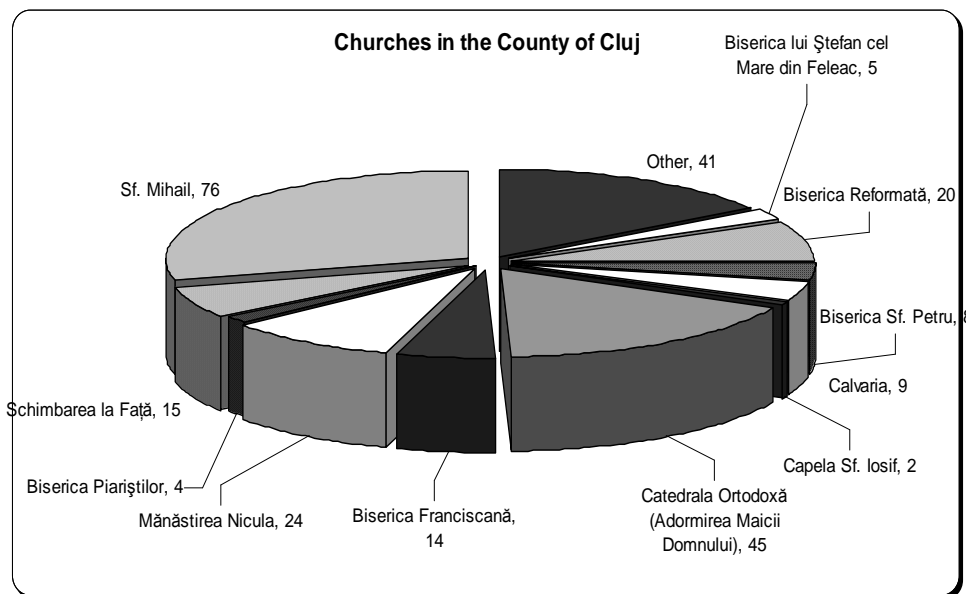


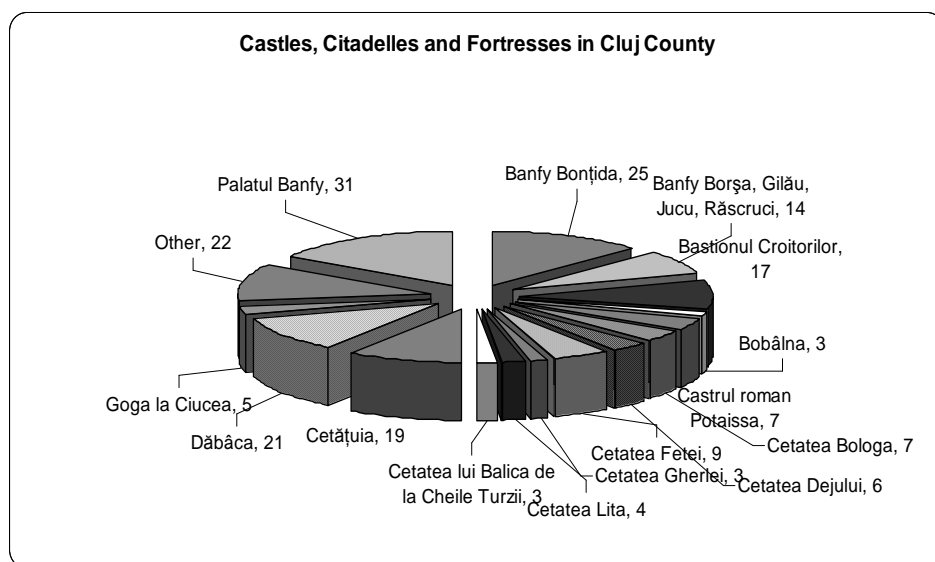
Figure 5. Museums Belonging to the County of Cluj that Were Mentioned

Three museums enjoy the highest notoriety: the Art Museum of Cluj, the Ethnographic Museum of Transylvania (with both its sections) and the Transylvanian History Museum. As expected and anticipated, less popular are the museums situated outside the municipality of Cluj-Napoca. Almost 40 % of the respondents made no nomination at all. This situation raises, of course, the problem of the peer marketing of cultural attractions, especially museums. On the other hand, the respondents declared that they have visited a museum during the past year.



**Figure 6.** Churches Belonging to the County of Cluj that Were Mentioned

Whenever they are asked, Romanians state that their greatest confidence is related to the Church – as an institution. Despite this attitude towards the values of religion, 90 persons did not nominate any religious edifice of Cluj. By far, the highest notoriety is registered by “St. Michael” church, followed by the Orthodox Cathedral and by the Monastery of Nicula (that possesses the icon that cries).



**Figure 7.** Churches Belonging to the County of Cluj that Were Mentioned

A total number of 101 persons did not mention any fortress, mansion, castle, citadel or palace, situated in the County of Cluj. The palaces and castles of the Bánffy family seem to enjoy a higher notoriety. The best-known is the Bánffy Palace of Cluj-Napoca, probably due to the fact that it hosts the National Art Museum, respectively, because it is an emblematic building of the city's baroque architectural style; it is followed by the castles of the same family (Bonțida – undergoes major renovations and hosts some sort of *Medieval* shows; Borșa – a hospital for mental illnesses; Gilău – a former orphanage; Jucu; Râscruci); quite well-known are the Citadel of Cluj-Napoca – mainly due to its privileged position of the best panorama over the city, and the Tailors' Tower – the best preserved tower of the old city fortifications (it also undergoes major renovations and it will host a museum dedicated to weapons); a fair notoriety is also enjoyed by the Romanian historic vestiges (the ruins of the fortress from Dăbâca; the Roman Caster from Turda; Bologa castle and the museum from Ciucea. Unexpectedly, Cetatea Fetei appeared more than expected; a simple explanation can be offered: its notoriety does not have the least thing in common with promotion but it is owed to the relatively newly developed residential area for young people, in Florești.

**Table 8.****Other Mentioned Tourist Attractions (Numbers of Occurrences)**

Monuments	20
Architecture	3
Natural and Handmade Heritage	31
Libraries	3
Belvedere	1
Churches	20
Matei Corvin Memorial House	6
Fortresses	14
Education and Culture	53
Mountains	3
TOTAL	154

Among the other cultural attractions of Cluj-Napoca, there were mentioned quite many elements that completed the previous enumerations (monuments, churches, fortresses or nature) but also universities and libraries, under the category of “Education and Culture”. Cultural and folkloric events were fully ignored.

One of our concerns was to find out how the investigated population spends its spare time. Several items were brought into discussion. The responses have revealed the following trends:

- Romanians tend to spend most of their spare time either watching TV or walking in parks or outside the cities;
- museums, cinemas and theatres seem to rarely attract people (museums are most of the time visited while on holidays);
- concerts, spectacles and folklore very rarely represent a manner of spending time.

Moreover, when asked how much money they spend on cultural activities (including buying books), the great majority placed themselves in the interval of 1 to 200 Lei per month. During their holidays, the same persons declared that they allocate an average of 200 Lei to cultural activities, of an average budget of 2,200 Lei (per holiday).

We asked the persons to estimate the state of their future financial situation under the sign of the crisis. The answers were as follows: 60 % estimate it is going to worsen; 26 % believe it is going to stay constant; while only 24 % anticipate an improvement. The people were also asked to reevaluate their budget for a holiday, under the same conditions of the crisis.



The results were: a diminishing by almost 30 % of the total budget, and by approximately 20 % of that allocated to cultural activities.

#### 4. Conclusions

Several conclusions may be drawn:

- investors and business persons who carry out tourist activities have not yet understood the fact that business tourism is not the “only horse to bet on” – unfortunately, they are going to learn their lesson sooner than anyone would have expected last year;
- the country’s cultural potential and heritage is far from being properly exploited for the development of tourism;
- good tourism exploitation of the cultural heritage also raises the problem of proper organization and preparation (including heritage sites’ promotional materials in foreign languages, for example, or the development of attractive multilanguage websites of the cultural institutions, etc);
- the economic crisis raises the issue of budget cut-off, which – as anyone has understood until now – , in Romania, usually affect the already poor sectors such as education and culture; thus, we expect it is just a matter of time until local and national budgets are going to be redistributed, and reduced amount are going to be allocated to tourism and culture. The subjects’ anticipations should be regarded as slight or delicate “attention signals” in this respect.

Last year, Agerpres pointed out the several aspects concerning cultural heritage tourism in general and, Romanian heritage tourism, in particular:

- “Tourism is one of the most developed industries and tourism to cultural objectives is the segment with the fastest growth. [Figures concerning the impact of the crisis are not yet available.]
- World heritage sites (851) are annually visited by millions of visitors, thus becoming an important problem as for the management problem of the sites on UNESCO World Cultural and Natural Heritage list.
- Tourism to Romanian sites included on the World Heritage list can be either a *development* opportunity or, in case it is badly conceived and implemented, a *serious threat* for the authenticity and integration of the exceptional cultural and natural values it generated.” [AGERPRES]

We would dare appreciate that Romania is still quite safe regarding the above-mentioned threat, mainly due to its lacking infrastructure. But authorities must acknowledge all the implications of tourism development. Nevertheless, it must also become clear that tourism and culture can best develop in a symbiotic manner.

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