



FACULTY OF FINANCE - ACCOUNTING

**THE JOURNAL
CONTEMPORARY ECONOMY**
Volume 8, Issue 3/2023

**REVISTA
ECONOMIA CONTEMPORANĂ**
Vol. 8, Nr. 3/2023

**”Independența Economică” Publishing
2023**

SCIENTIFIC BOARD:

Professor PhD Ovidiu PUIU, “Constantin Brâncoveanu” University of Pitești, Romania
Professor PhD Manuel Salvador Gomes ARAÚJO, Instituto Politécnico do Porto, Portugal
Professor PhD Iuliana CIOCHINĂ, “Constantin Brâncoveanu” University of Pitești, Romania
Professor PhD Emil DINGA, Senior Researcher, “Victor Slăvescu” Financial and Monetary Research Center, Romanian Academy, Romania
Professor PhD Emilian M. DOBRESCU, Senior Researcher, Institute of National Economy, Romanian Academy, Romania
Professor PhD Mădălina DUMITRU, Academy of Economic Studies of Bucharest, Romania
Professor Hab. Leszek DZIAWGO, PhD, “Nicolaus Copernicus” University in Toruń, Poland
Professor PhD Marius GUST, “Constantin Brâncoveanu” University of Pitești, Romania
Senior Researcher PhD Mărioara IORDAN, Institute for Economic Forecasting, Romanian Academy, Romania
Professor PhD Dumitru MARIN, Academy of Economic Studies of Bucharest, Romania
Professor PhD Ion MIHĂILESCU, “Constantin Brâncoveanu” University of Pitești, Romania
Professor PhD Doina MUREȘANU, Université de Québec in Abitibi-Temiscamingue, Canada
Professor Hab. PhD, Rodica PERCIUN, National Institute for Economic Research, Republic of Moldova
Professor PhD Vasile RĂILEANU, Academy of Economic Studies of Bucharest, Romania
Professor PhD Ion STEGĂROIU, “Valahia” University of Târgoviște, Romania
Professor PhD Alexandru STRATAN, Corresponding member - National Institute for Economic Research, Republic of Moldova
Professor PhD Dumitru VIȘAN, Academy of Economic Studies of Bucharest, Romania
Associate Professor PhD Mihaela ASANDEI, “Constantin Brâncoveanu” University of Pitești, Romania
Associate Professor PhD Elena CIGU, “Al. I. Cuza” University of Iași, Romania
Associate Professor PhD Florin DIMA, “Constantin Brâncoveanu” University of Pitești, Romania
Scientific Researcher PhD Ionel LEONIDA, “Victor Slăvescu” Financial and Monetary Research Center, Romanian Academy, Romania
Scientific Researcher PhD Edith DOBRESCU, Institute of World Economy, Romanian Academy, Romania
Associate Professor PhD Sebastian ENE, “Constantin Brâncoveanu” University of Pitești, Romania
Associate Professor PhD Mihaela GÖNDÖR, “George Emil Palade” University of Medicine, Pharmacy, Sciences and Technology of Târgu-Mureș, Romania
Associate Professor PhD Oana-Ramona LOBONȚ, West University of Timișoara, Romania
Associate Professor PhD Camelia-Cătălina MIHALCIUC, “Ștefan cel Mare” University of Suceava, Romania
Associate Professor PhD Mircea DUICĂ, Valahia University of Târgoviște, Romania
Associate Professor PhD Mihaela-Roberta STANEF-PUICĂ, Academy of Economic Studies of Bucharest, Romania
Associate Professor PhD Maria Cristina ȘTEFAN, Valahia University of Târgoviște, Romania
Associate Professor PhD Daniel ȘTEFAN, “George Emil Palade” University of Medicine, Pharmacy, Sciences and Technology of Târgu-Mureș, Romania
Assistant Professor Michal BUSZKO, PhD, “Nicolaus Copernicus” University in Toruń, Poland
Lecturer PhD Andreea GANGONE, “Constantin Brâncoveanu” University of Pitești, Romania

EDITOR-IN-CHIEF:

Associate Professor Ph.D. CRISTINA GĂNESCU

EDITORS:

Lecturer Ph.D. ANDREEA GANGONE, *Lecturer Ph.D. GIANINA NEGRĂU*, *Associate Professor Ph.D. MIHAELA SAVU*, *Lecturer Ph.D. CORINA DUCU*, *Lecturer Ph.D. NICULINA STĂNESCU*

EDITORIAL SECRETARY:

Lecturer Ph.D. IULIANA TALMACIU

LANGUAGE REVIEWERS:

Lecturer Ph.D. GEORGIANA MÎNDRECI, *Lecturer Ph.D. CAMELIA RIZEA*

The Journal is printed under the patronage of
“Constantin Brâncoveanu” University, Faculty of Finance-Accounting.
© “Independența Economică” Publishing, 2023 - Recognized by C.N.C.S.
Pitești, Calea Bascovului no. 2A, Argeș County, Romania, Phone/Fax: +00248-216427.
The Journal is currently indexing in the following international databases:
EconPapers (RePEc), IDEAS, BASE, SCIPHO, OAJI, ResearchBib,
CEEOL (Central and Eastern European Online Library),
Index Copernicus International – ICI Journals Master List.

The views expressed in these articles are the sole responsibility of the authors.
ISSN 2537 – 4222, ISSN-L 2537 – 4222

CONTENT

Viorica UNGUREANU	ACCOUNTING FOR INNOVATIONS IN VENTURE CAPITAL ACTIVITY PROPOSED FOR THE REPUBLIC OF MOLDOVA	6-16
Florența Simona CREȚU	ASPECTS REGARDING THE EVOLUTION OF TOURISM ON THE ROMANIAN COAST	17-21
Cristina Aurora BUNEA-BONTAȘ	OPERATING BUDGET – THEORY AND PRACTICE	22-27
Sorin-George TOMA	WHISKY, A TASTY BUSINESS	28-34
Cristina GANESCU	SUSTAINABLE LOGISTICS, AN INTELLIGENT BUSINESS MODEL	35-42
Isabela STANCEA	LEGISLATIVE CHANGES IN THE FIELD OF LEGAL LABOR RELATIONS	43-48
Cristian PIECU	THE DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP AS A TOOL FOR ECONOMIC PROGRESS	49-52
Georgeta Margareta DOBRESCU	IMPLEMENTATION OF INTERNAL MANAGERIAL CONTROL STANDARDS WITHIN AN ECONOMIC ENTITY	53-57
Daniela POPA	INVENTORY OF GOODS IN THE PUBLIC DOMAIN OF ADMINISTRATIVE-TERRITORIAL UNITS	58-62
George Alexandru ISTRATE	THE ROLE OF COMMUNICATION IN CHANGE MANAGEMENT WITHIN PUBLIC ADMINISTRATION	63-69
Marius GUST	BANKING MARKET TURBULENCE IN MARCH 2023	70-86
Liliana – Victoria GHERMAN	THE IMPACT OF PERSONALITY ON THE CAREER OF HUMAN RESOURCES	87-91

Kishlay KIRTI,
Raviranjana KUMAR,
Rikil CHYRMANG MIGRATION FROM BIHAR, INDIA: TREND, PATTERN, DURATION AND DESTINATION **92-99**

Daniel DANECI-PATRAU,
Carmen Elena COCA,
Romeo BOSNEAGU THE RAILWAY TRANSPORT SYSTEM AND ITS IMPLICATIONS IN THE ECONOMIC DEVELOPMENT **100-107**

THE JOURNAL CONTEMPORARY ECONOMY

<http://www.revec.ro>

- Peer Review -

The peer review process has a vital role in achieving both the goal and the objectives of the journal, evaluating originality and quality of articles submitted for publication. Within this process, reviewers may suggest improvements of form and content of the articles reviewed.

After receiving the article, the editorial board will verify the eligibility, depending on the respect of the editing requirements. Authors will be notified by email of the result of the eligibility verification within 15 days.

The Journal CONTEMPORARY ECONOMY uses the double-blind peer review system for the articles submitted for publication. Thus, the identity of the author(s) of the article and the reviewer (reviewers) is not known to any party, the editor being the one who assigns the reviewer for a certain article and the only one who knows the identity of both the author(s) and of the reviewer.

Authors will be informed by email about the outcome of the review.

The criteria that guide the peer review process of the manuscripts are divided into four main categories:

1. Originality and importance of the topic addressed in relation to the current stage of the research, to the purpose and objectives of the journal
2. Presentation in a highly coherent and comprehensive manner of the current stage of the research, plus the accuracy and quality of references
3. The structure of the manuscript must comply with the drafting recommendations presented in the **Redaction** section. Articulation must be clear, coherent and logical. Special attention is given to the translation into English which must be done in a scientific and academic language specific to the related field of research, avoiding the possible errors of speech, grammatical errors, errors of sentence syntax and colloquial expressions specific to common English. The journal accepts as standards of English both the British and the American speech.
4. Ethics emphasizes three categories of practices considered unethical and improper to the research activity:
 - a. Plagiarism, as defined in the literature
 - b. Fraud, as defined in the literature
 - c. Other ethical reasons (confidentiality of data used, obtaining permissions for quoted material, etc.).

The above-mentioned criteria are communicated and detailed to the reviewers with whom the journal works. Based on these recommendations they express their final recommendation on the publication or non-publication of the manuscript submitted to review in a *Peer Review Report* whose form is provided by the journal editorial office.

The Journal is indexed in:

EconPapers (RePEc), IDEAS, BASE, SCIPHO, OAJI, ResearchBib, CEEOL (Central and Eastern European Online Library), Index Copernicus International – ICI Journals Master List.

The article will be sent to:

”Constantin Brâncoveanu” University of Pitești
Faculty of Finance-Accounting
Pitești, Calea Bascovului no. 2A, Argeș County, Romania
Phone +400248-212627, int. 1019, fax +400248-221098
Email: revec@univcb.ro, cristina_ganescu@yahoo.com

Contact person:

Associate Professor Ph.D. CRISTINA GĂNESCU
Phone +400744420742
Email: cristina_ganescu@yahoo.com

ACCOUNTING FOR INNOVATIONS IN VENTURE CAPITAL ACTIVITY PROPOSED FOR THE REPUBLIC OF MOLDOVA

Ph.D. Student, Viorica UNGUREANU

The Doctoral School of Economic Sciences of the State University of Moldova,
Chisinau, Republic of Moldova
E-mail: vioricaungureanu.dreptate@gmail.com

Abstract: *In businesses with a risk profile, from which innovative projects originate, investments have an important place. When venturing into a project, the investor must be extremely cautious and calculated, correctly assess the risks related to venture capital activity, and the position of the economic agent, who initiates the project, must be an exemplary one, which accurately reflects the economic reality and its perspective to generate as high a return as possible. For this purpose, the accounting of innovations in venture capital activity must provide all users with the most truthful information. In the study, the author formulated a hypothesis: the financing sources of innovative projects represent capital investment sources, this is why it is necessary to know the capital market and its efficiency, from which it can be deduced that the innovative activity requires special knowledge of the field, starting from the operational record to the accounting record of all operations, including financial reporting based on fair value according to International Financial Reporting Standards. Under the conditions of the operation of the venture activity mechanism, the meaning of information and reporting in the financial statements takes on particular importance, because the results of the venture capital activity are reflected in slips, registers, order journals, trial balances and financial statements, the purpose of which is to provide actionable information for the adoption of the most effective solutions by its users.*

Keywords: *innovations, accountancy, funding investment, capital venture, Business-angels, IFRS.*

JEL Classification: *M41.*

1. Introduction

Venture capital investments are investments in a developing business or start-up whose prospects for success are not yet known. For the reasons that venture capital investors take a lot of risks in choosing innovative projects, they are extremely careful and use several sources of information such as accounting data and records, financial reports, reports of financial analysts, etc., according to which they base their decisions of investment. Although a leading part in the process of financing innovative projects belongs to the state through the elaboration of normative acts and laws intended to regulate the activity with a risk profile, nevertheless a special place in this chain belongs to the capital market and the efficiency in terms of resource allocation. In a contemporary and competitive economy, "the role of capital markets is to allocate available resources, in a way that allows for the most efficient use" (Vilcu, 2019, p.107). Thus, the capital market can be considered efficient if it is simultaneously efficient: a) from the point of view of resource allocation, b) from the operational point of view, c) from the informational point of view. The market must meet the following conditions to be considered efficient (Duțescu, 2000):

- there should be no securities trading costs;
- all information to be valid, fairly and free of charge, for all market participants;
- participants in capital markets transactions to have homogeneous forecasts regarding the implications of the information received.

Equally current is the opinion according to "a modern accounting system is the one that ensures the opening of accounting to investors" (Ștefănescu, 2005, p.226). In this sense, the application of International Financial Reporting Standards (IFRS) for financial instruments is an optimal solution for reasons of comparability of accounting information and financial reporting on capital markets. Contemporary economic reality comes in arguing the hypothesis that accounting information now allows investors to analyze past, present and even future events in the entity, which can confirm or deny the initial forecasts for the

purpose of financing innovative projects. The accounting profession should be particularly concerned with the presentation of financial statements and reliable and appropriate information based on fair value according to IFRS 13 (Fair Value Measurement). Otherwise, accounting information can become an additional risk factor in the innovation process, especially at the funding stage.

2. Literature review

The state's interest in the development of venture activity is manifested through the support provided, a fact indicated in the strategic development documents. Innovation was the core of the Europe 2030 Strategy agreed upon by the member states within the European Council and which supports smart, sustainable and inclusive growth. The Europe 2030 Strategy approaches the concept of innovation in a broader sense: both research-based innovation and research aimed at business models, design, brand strategies and services. The creativity and diversity of European citizens and the strength of European creative industries offer a high potential to generate growth and create new jobs through innovation, especially for SMEs. The need to strengthen the links between the research environment and the business environment, as well as the acceleration of the importance of scientific research for the needs of the business field, is indicated in all the policy documents that governed and govern the field of innovations (the National Program in the fields of research and innovation for the years 2020- 2023, the Research and Development Strategy of the Republic of Moldova until the year 2020, the Innovation Strategy of the Republic of Moldova for the period 2013-2020 "Innovations for competitiveness" and the National Development Strategy "European Moldova 2030"). The tendency to promote venture capital activity is enshrined in the basic strategies both at the level of the international communities and at the national level. For example, the European Commission (EC) issued in 2008 The Small Business Act for Europe, in which the role of innovations in economic growth is eloquently described and the number of principles are determined, among which: the creation of the institutional framework; facilitating the access of small and medium enterprises to sources of financing and the development of a favourable business environment. Back in 2010, the European Commission approved a European strategy for economic development - "Europe 2020", which represents a strategy for smart, sustainable and inclusive growth, in which such a strategy was approved for rapid development and the achievement of predetermined objectives flagship initiative as an Innovation Union, with the aim of encouraging innovations and facilitating the financing conditions of scientific research. Then, at the national level, in 2012, the Government of the Republic of Moldova approved the Strategy for the development of the small and medium-sized enterprises sector for the years 2012-2020. In addition to this, in a parallel sequence, the Activity Program of the Government of the Republic of Moldova 2016-2018 was developed, in which it was stipulated to ensure the European course in the business sphere, improving the climate of the investment environment for the development of small business. The Moldova 2030 Strategy describes implementation tools that provide financial support to venture-type research and innovations capable of producing new progress in the business sphere. This financial support is carried out at any stage of development of the venture capital enterprise in two forms: loans to innovative companies and joint ventures (stock package) with risk capital.

On the way to the normative regulation of innovative activities, only in 2020, the law on alternative collective investment bodies is adopted, which is the basic law for the legislation of venture activity. In the same way, the law on small and medium-sized enterprises, which is part of the institutional framework for the development of innovative

activity, is adopted, and a draft law with reference to venture capital is also proposed for examination and approval.

With reference to the accounting of operations related to innovations, it is necessary to develop an accounting mechanism specific to the risk activity guided by the provisions of different standards, because in the International System (Financial Reporting Standards - IFRS) there is no single standard of accounting regulation and reporting for businesses of risk. So, for this, it is proposed to apply IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", in combination with IFRS 9 "Financial Instruments" and IFRS 2 "Share-Based Payment".

3. Research design and methods

The purpose and objectives of the research consist in studying the financial instruments and the accounting of innovations in venture capital activity, the specific features of the management of creation and innovation activities, the specific mechanism of accounting, financing with venture capital, financial reporting, improving the legal framework in the field of innovation and of venture activity, analysis of the interdependence and interaction of venture activity subjects. In this research, we resorted to the fundamental methods of investigation of the legislation, among which we mention the logical method, which is generally based on the logical interpretation of the provisions of national and European Union legislation in the field of innovations. We also used the analytical method of research with the help of which we studied and analyzed the primary and secondary regulations adopted to implement the provisions of the legislation in the given field. The research carried out is also based on methodologies based on theoretical-scientific and empirical principles and analytical methods: analysis and synthesis of scientific literature documents, comparative analysis of information, statistical methods; observation; induction and deduction. We also used the comparative method in examining the "Global Innovation Index 2021" Report.

4. Results

In the ranking of the Global Innovation Index 2021, the Republic of Moldova is placed 64th out of 132 countries in the world, accumulating a total of 32.3 points out of 100 (The Global Innovation Index, GII).

Tab. 1. The positioning of the Republic of Moldova according to different criteria

Anul	Innovation Input	Innovation Output	Infrastructure	Human capital and research	Market sophistication	Business sophistication	Institutions	Creative outlets	Knowledge and technological results
2021	80	54	82	77	74	87	81	53	54

Source: Global Innovation Index 2021

The need to implement innovations is already visible at different levels of the country's development on the path of European integration, having the current status of the EU country, especially in the conditions of the energy crisis in which our country is currently. Thus, objective no. 1 of the "European Moldova 2030" National Development Strategy is to increase incomes from sustainable sources and mitigate inequalities, and the premise is the development of opportunities for innovations and entrepreneurship. The EU could be a

worthy model to follow, especially for the IFRS portable accounting model based on the fair valuation value of financial instruments and investments, but also in terms of strategies. SND "European Moldova 2030" is a national long-term strategic vision document, which indicates the country's development directions and which adapts the priorities, objectives, indicators and targets of the international commitments that the Republic of Moldova has assumed in the national context. According to her, on the one hand, the implementation of innovations in practice for development, on the other - the investment of financial resources in organizations whose activities are related to the development and innovative ideas, most of which do not have sufficient financial resources.

The investment is based on two important pillars: 1) the risks, and 2) expected profit. Any investor seeks to obtain from venture companies with innovative activities increased profitability or a super-profit, which is possible only through a risky venture, where the risks incurred can lead to losses throughout the entire period of development of the innovative project, and the end to obtain a profit surplus. Financing a new entity, as a result, the venture company appears. For the efficient use of the financing program with the increased risk of losses, and the probability of obtaining super profits is low, a special mechanism for structuring free financial resources, called risk funds or venture funds (from the law – the body of collective alternative placement OPCA), whose activities are mostly stimulated and regulated by the state. This OPCA, arising from certain conditions, invests in an individual entrepreneur (usually a start-up), who is co-interested in the possibility of obtaining super-profits (Țurcanu and Golocalova, 2017). From a legal point of view, the venture fund is an investment fund made up of investors, with or without legal studies, legal entities and/or natural persons with any organizational-legal form in the manner provided by the legislation in force. The main objective of financing with venture capital consists in the fact that the financial resources that belong to investors (private entities, funds, banks, the state) and the intellectual possibilities of venture companies, as well as their opportunities in the form of original ideas and technologies will be able to come together in order to organize the business to achieve increased profitability.

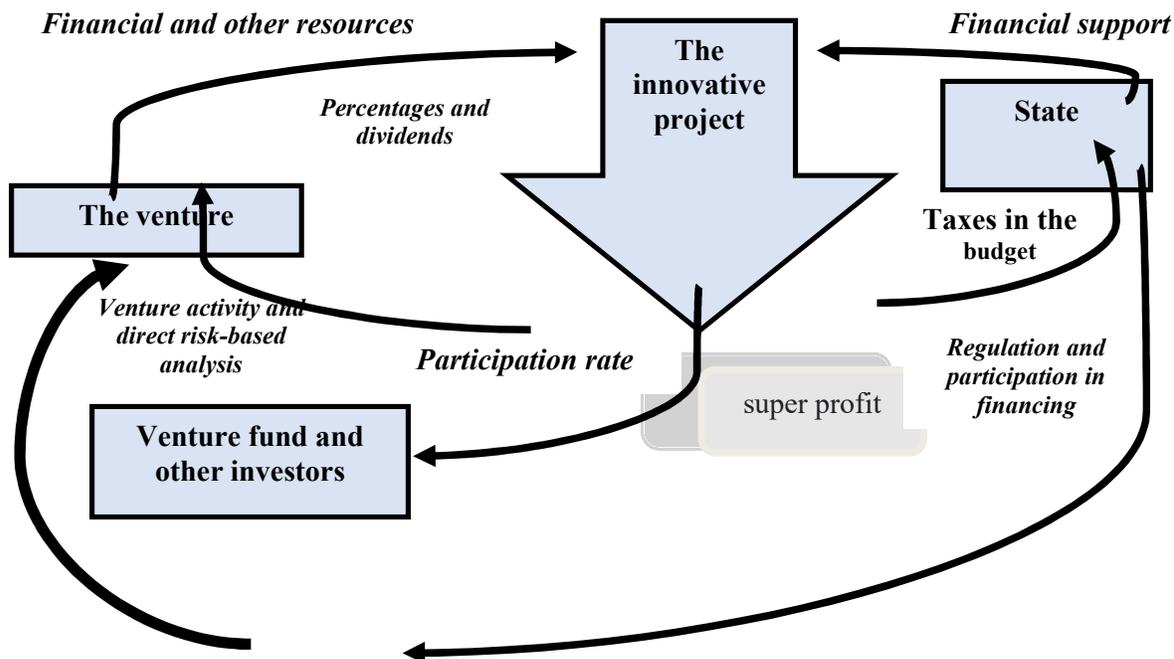
Each investor pursues his own objectives: the internal ones - primarily count on realizing the idea, occupying a new niche on the market and obtaining his share of the capital, the external ones - expect the recovery of investments and obtaining a profit surplus, the state sees the economic advantages for the improvement of the economic situation, the stimulation of employment and the possibility of consolidating the budget from the account of fiscal obligations (Țurcanu and Golocalova, 2017, pp. 47-52).

The venture capital investor does not invest directly in production, but in the company's share or statutory capital, which cannot be withdrawn on its own initiative until the end of the term indicated in the financing agreement.

Figure no. 1 schematically shows the interaction and interdependence of three venture activity subjects.

At the current stage, in the Republic of Moldova, there is the necessary legal framework and the development perspective in the field of innovations, but the implementation mechanisms are poorly developed, because there is no alternative collective investment body with risk capital like a venture fund (Found Venture) registered and approved by the Supervisory Body - the National Financial Market Commission. Accordingly, we cannot develop any accounting and financial reporting mechanism specific to this type of risky activity.

Fig. 1 The relationship, interaction and interdependence of the entities of the venture activity

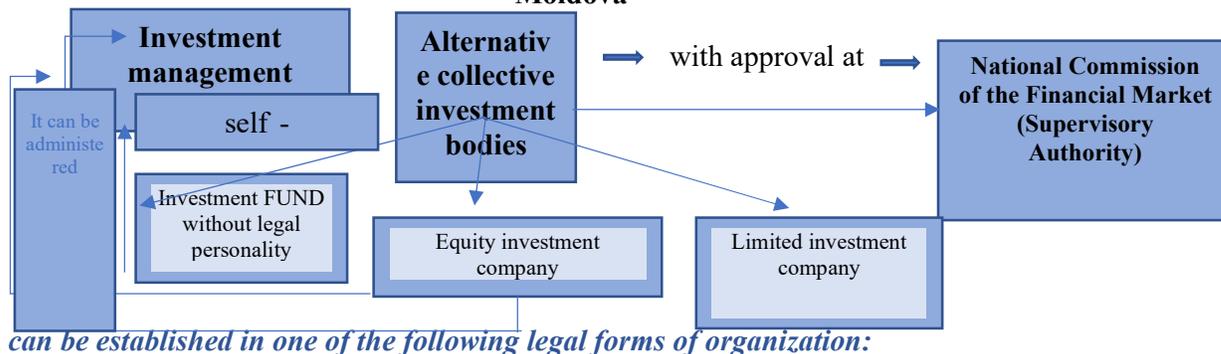


Source: Țurcanu V.I., Golocalova I.N. (2017). Some aspects of venture activities: implementation and accounting (in the example of the Republic of Moldova). Economic. Edition 1 (49). T.1

According to art.1, The Law on Alternative Collective Investment Bodies has the following purpose and fields of application:

- regulates the constitution, approval and operation of OPCA;
- regulates the requirements for the organization, licensing and activities carried out by SAI, the obligations related to the management of OPCA with risk capital and long-term investments;
- regulates the rules regarding OPCA asset depositories.

Fig. 2 Model for setting up an alternative collective placement body according to the legal form of the organization according to the legislation in force of the Republic of Moldova

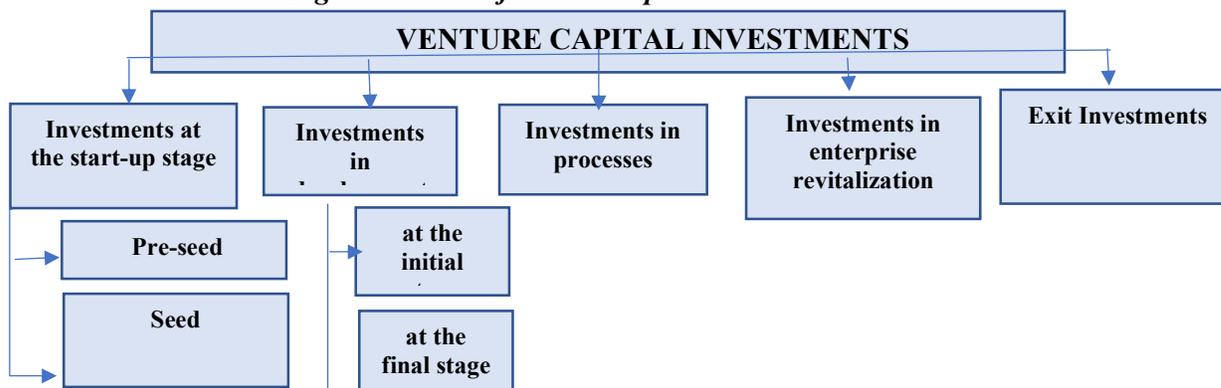


Source: Prepared by the author

Although it was possible to adopt a law for the legal foundation of OPCA, which, in fact, refers more to venture funds, which attract financial resources from certain investors in order to place them according to the investment policy promoted in their interest, however, the coverage area of the entire venture activity is much wider. Since the actors of this type of activity with risk capital carry out activities on the capital market, compliance with the regulations of the capital market law (2012) is also required, and the professionals who select the innovative projects in order to establish the financing criteria must be certified on the market of capital and possess necessary and specific knowledge in this respect.

At the same time, it is found that investments with venture capital represent a direction of perspective in financing the innovative activity of entities through flows of venture capital within the national economy. Based on these benchmarks, the specific operating mechanism inside the entities that deal with the development of innovative projects and the accounting mechanism of operations that depends on the funding sources are also built. Next, I will schematically present the types of investments with venture capital (Figure 3):

Fig.3 Structure of venture capital investments

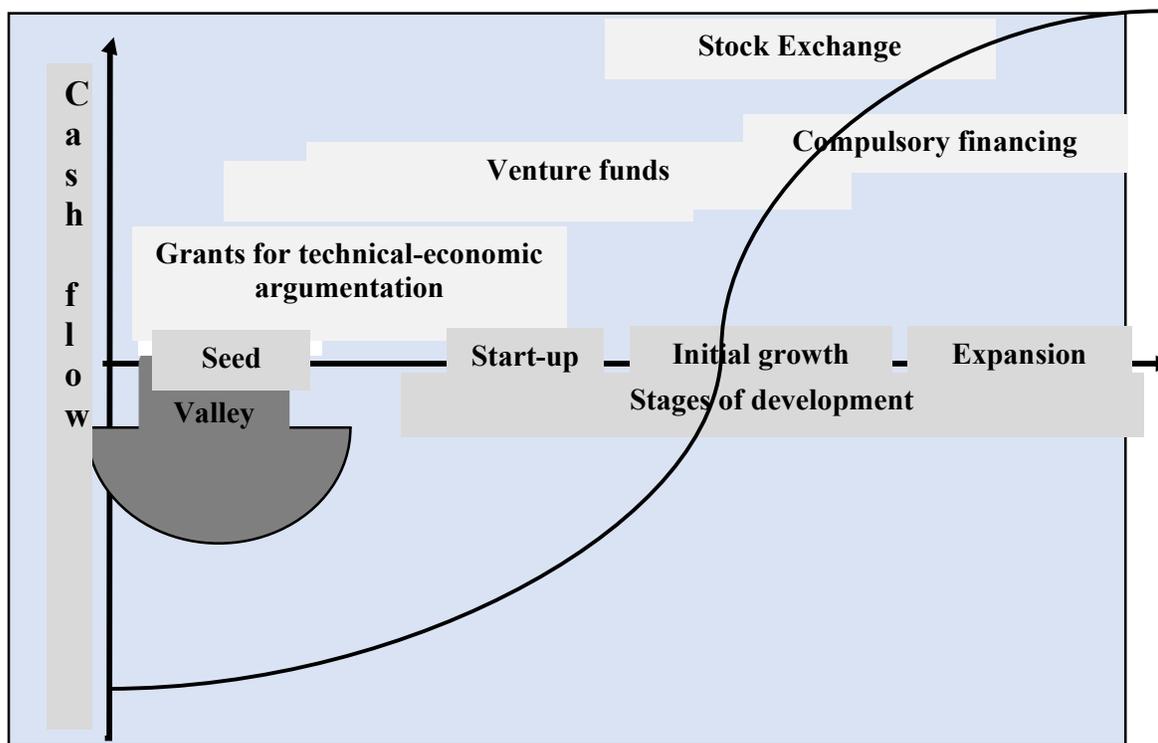


Source: Prepared by the author

5. Discussion

Every product, service, market or enterprise, by essence, develops like a human being, i.e. they are born, develop, grow old and die. Innovative companies are no exception, operating in accordance with the life cycle concept. The profitability and success of the venture company depend on several factors and, most importantly, on the value of its shares. Actions must be clearly systematized in stages and accurately executed only in the sequence shown below:

Fig. 4 Graphical representation of development stages, cash flow and funding sources of innovative projects



Source: Mochalina, Y.V., 2010. №11.

Researching theoretical approaches to the concept of accounting as a process of providing information for subsequent financial and managerial analysis offered by scientists allows for defining its general notion. Accounting is an important part of the management system and can be referred to as the process of collecting, preparing, recording and combining information about the operations of a company. It provides the justification and effectiveness of managerial decisions aimed at defending the financial interests of the owners against internal and external challenges and threats (Țurcanu and Golocalova, 2017).

At the "seed" stage, the accounting records will reflect the quantitative and estimated value of the initial research on the basis of which the business concept designs will be made, including operational data such as technical-economic arguments, determination of market potential and economic viability. At the given stage, the entity is in the initiation process: the team is being formed, which will manage the project, respectively costs will accumulate in accounting and from the team members' salaries. Since, at this stage, the profit and income are completely missing, the entrepreneur, in the given case, will be in the position of the

researcher or the inventor, who needs resources to carry out some activities of theoretical and applied argumentation of the commercial potential of the concept.

The "**Start-up**" stage involves the accounting of the activities of creating the production model, and the trial testing of the innovative product. From an operational point of view, the market will be thoroughly researched and sales channels will be sought, also the company will be given an official status. Major importance must be given to the start-up phase of venture-type activity, because it is precisely at the initial stage of development of the innovative project that the main complication in the evaluation of the innovation manifests itself, as a result of demonstrating the quality of human capital (Legenchuk and Usatenko, 2020). At the start-up phase of the implementation of the venture activity, the intellectual contribution of the author of the idea is of primary importance (Ivanov, 2014), and he must be included in the form of human capital in the statutory capital in the stage of its formation. At this stage, the legal form of the future relationship between the human capital holder and the venture capital investor is also established. From this context, it is necessary to draw attention to the issue of evaluation and the financial reporting scheme of innovations, as a result of the investment of human capital in venture activity as a modern trend in accounting methodology. Human capital represents the totality of acquired skills and knowledge, skills and innovations, the efficient use of which contributes to increasing income and other benefits.

In the accounting records **at the stage of initial growth**, accounting entries related to reaching a stable level of sales and the start of growth will be reflected. An expansion of the production process will be observed in the operational activity of the venture entity. The initial growth stage can be divided into three phases:

- The first phase of the initial increase – the organization of the records through primary documents of the production process;
- The second phase of the company's development will reflect in the accounting data a volume of production, which determines the real demand on the market;
- The third phase of initial development refers to a rather rapid increase in the volume of production and will record in the accounting records the obtaining of a real profit, which significantly reduces the level of investment risk.

At the stage of initial growth, the main source of financing for innovation entities is venture funds. Venture capital funds and the financing process will be properly reflected in the accounting records, and at the operational level, the process of receiving financial resources from funds that invest in the high-risk business will be followed. As a rule, 70-80% of innovative projects do not generate profits, but the profit of the other 20-30% covers almost all losses, damages and scraps.

At the expansion stage, to increase the production volume of the innovative product, the entities can obtain financing from various sources. At this stage, the company already has a certain history, all accounting operations aim to reflect these indicators, and visible results of innovative activity are pursued. Therefore, the financing sources of innovative entities at the expansion stage are much more varied than at the previous stages.

At the stage of expansion in the accounting system, a significant increase in the production volume will be observed, at the operational level, respectively - a significant increase in the market share.

The provisions, which would also cover innovative processes, which would not be contradictory and would serve the purpose of developing a transparent representation in the financial reporting of scientific progress, are not defined in the normative basis of the accounting system of the Republic of Moldova. For this reason, we will use the International Financial Reporting Standards (IFRS). Although here too, there is a lack of a basic standard

to regulate the issue of reporting and accounting in venture activity, nevertheless these questions can be resolved based on the concept of fair value measurement. In order to evaluate human capital at the start-up phase, two estimation models are accepted in the IFRS system:

- 1) based on the cost model - IAS 38 "Intangible assets"
- 2) based on income - IFRS 2 "Payment based on shares" (Golocialova I., Maior V., conf. 15.03.2018).

Applying one of the evaluation models requires a separate mechanism for representing innovation-related operations. For analysis in the table below, the traditional mechanism and the one proposed for representing the operations of venture activities based on the comparison of the existing approaches within the concept of valuation according to IFRS (Țurcanu V., Golocialova, I., ACAP, 2015).

Tab.2 The accounting mechanism of operations related to venture activity in the context of IFRS

Choice	Regulation	Accounting evaluation	The model of ASSESSMENT	The representation mechanism of innovations
Traditional	IAS 38	The pattern cost	Initial cost	<ul style="list-style-type: none"> ➤ At the research stage: Dt "Operating expenses" Kt "Obligations" or "Accounts expenses incurred" ➤ At the development stage: Dt "Intangible assets" Kt "Obligations" or "Accounts expenses incurred"
Proposed	IFRS 2	The model on income base	Binomial, Monte-Carlo	<ul style="list-style-type: none"> ➤ At the initial phase of the formation of the statutory capital: Dt "Intangible assets" Kt "Social capital"

Source: developed by the authors (Țurcanu V., Golocialova, I., ACAP, 2015)

6. Conclusion

As we have already mentioned, the key point of risk activity is the realization of an innovative project or an innovative idea. I believe that the evaluation of this idea, as a result of its financing, will be possible only on the basis of the concept of fair value. Namely, this explains the rationale for using IFRS to reflect accounting operations in venture activity. In this sense, I note that the accounting and reporting system of the Republic of Moldova built on the basis of the National Accounting Standards (SNC) lacks regulations to reflect transparently the accounting operations related to venture capital activity. According to the studies carried out, I can conclude that state support of innovative activity is, indisputably, necessary and, in some cases, mandatory. The tax reliefs and facilities, the simplification, promotion and implementation of venture capital will have a beneficial influence from the macroeconomic perspective on the development of the process of financing innovative activity in the Republic of Moldova.

Although a step forward towards the legislation of the financing of innovative projects was made, with the appearance of the legislative acts on risk capital, namely Law No. 2 of 06.02.2020 on alternative collective investment bodies, however, no positive trends are observed in terms of implementation mechanisms and concrete for entities with venture activity. Based on the above, the improvement of accounting is requested, namely:

- development of an accounting model for venture activities, as well as venture funds;
- formation of an informational-accounting system to systematize analytical operations;
- developing financial reporting methods for participants in venture capital activities and accounting for innovations at each stage of the development of the innovative project;
- development of accounting methods for the results of venture activities and evaluation of the efficiency of the use of venture capital for financing based on the use of the forecast balances of the post-investment value;
- development of strategic accounting of property in enterprises with venture activity.

Since accounting is closely related to taxation and legislation, there is a need for moderate regulation of all phases of the venture activity, it is also necessary to develop mechanisms for reflecting all accounting operations, for the formation of appropriate management reports, statistical and fiscal Financial Reports through structuring corresponding to the field of venture activity. It is necessary, not only to harmonize the legislation but also to stimulate entrepreneurs to innovate, to develop venture funds, which it seems will not be successfully achieved without the rigorous support of the state or without having access to European funds with venture capital.

References:

1. Dultescu, A., 2000. *Informatia contabila si pietele de capital*. Bucuresti: Economica.
2. Dutta, S., Lanvin, B., Rivera León, L. and Wunsch-Vincent, S., 2021. *Global Innovation Index 2021*. [pdf] Available at: <<https://www.globalinnovationindex.org/userfiles/file/reportpdf/gii-full-report-2021.pdf>> [Accessed 2 March 2023].
3. EUR-Lex, 2020. *Strategia Europeana pentru Crestere Inteligenta, Durabila si Favorabila Incluziunii "Europa 2020"*.
4. European Commission, 1995. COM (1995) 688. *Green Paper on Innovation*. December 1995.
5. Golocialova, I. and Maior, V., 2018. *Model de contabilitate specific în condițiile de activitate venture: caracteristici și probleme în implementarea acestuia*. Conference 15.03.2018.
6. Golocialova, I. and Tsurcanu, V., 2017. *Some problems of capital measurement and accounting in innovative economy*. Abstracts of the International Scientific Conference "Development of accounting, analysis and audit of subjects of joint interest. Zhytomyr. pp.40-41.
7. Guvernul Republicii Moldova, 2023. *Strategia națională de dezvoltare „Moldova Europeană 2030”*. [online] Available at: <<https://gov.md/ro/moldova2030>> [Accessed 2 March 2023].
8. Hotărâre de Guvern Nr. 53/05.02.2020 cu privire la aprobarea Metodologiei de finanțare instituțională a organizațiilor de drept public din domeniile cercetării și inovării. Published 07.02.2020 in Monitorul Oficial No. 36-43 art. 65.
9. Hotărârea Guvernului Nr. 952/27.11.2013. *Strategia inovațională a Republicii Moldova pentru perioada 2013-2020, „Inovații pentru competitivitate”*.
10. Ivanov, N., 2014. *Innovative development in human capital management*. Study place: Moscow State University of Economy, statistics and informatics (MESI), Scientific article on economics and business, Problems of economics and legal practice.
11. Lebedeva, A.V., 2017. *Peculiarities of venture activities and technology transfers and their impact on accounting methodology*. Minsk: BSEU.
12. Legea Nr. 2 din 06.02.2020 privind organismele de plasament colectiv alternative. Publicat : 27-03-2020 în Monitorul Oficial Nr. 94-98 art. 142.
13. Legea Nr.171 din 11.07.2012 privind piața de capital. Published: 14-09-2012 in Monitorul Oficial Nr. 193-197 art. 665.

14. Legea Nr.179 din 21.07.2016 cu privire la întreprinderile mici și mijlocii. Publicat: 16.09.2016 în Monitorul Oficial Nr. 306-313 art. 651.
15. Legenchuk, S. and Usatenko, O., 2020. Directions and problems of accounting and analytical support for venture activity. *Accounting, Analysis and Audit*.
16. Mochalina, Y.V., 2010. *Features of the functioning of innovative enterprises in the concept of the life cycle*. In: Actual problems of the humanities and natural sciences, No. 11.
17. Ștefănescu, A., 2005. *Performanța financiară a întreprinderii între realitate și creativitate*. Bucuresti: Economica.
18. Țurcanu, V. and Golocalova, I., 2015. *Raportarea financiară conform standardelor internaționale. Lucrare metodică și practică*. Chișinău: ACAP.
19. Țurcanu, V.I. and Golocalova, I.N., 2017. Unele aspecte ale activităților de venture: implementare și contabilitate (pe exemplul Republicii Moldova). *Economica*. Ediția 1, 49.
20. Vilcu, V., 2019. *Contabilitatea și gestiunea instrumentelor financiare*. Bucuresti: Pro Universitaria.

ASPECTS REGARDING THE EVOLUTION OF TOURISM ON THE ROMANIAN COAST

Lecturer Ph.D., Florența Simona CREȚU

“Tomis” University of Constanta, Romania

E-mail: cretuflorenta2011@gmail.com

***Abstract:** This material was designed to highlight some of the aspects related to the number of tourists who choose to spend their holidays on the Romanian coast, because it has gone through a series of changes that have influenced the evolution of tourism in this area. One of the most important changes was regarding the tourist offer. Before, tourists came mainly for the beach and for relaxation. Nowadays, there are many more options for entertainment and activities, such as water sports, concerts, festivals and exhibitions. It also invested in infrastructure. In recent years, several hotels, apartment buildings have been built and some of the older accommodation units have been modernized. Also, several roads and highways were built and modernized, which made access to the coast easier and faster. Besides these changes, tourism on the Romanian coast was also affected by external factors, such as economic crises and political problems. These led to a decrease in the number of tourists and a decrease in the demand for tourism services. However, the tourism sector remains vulnerable to economic and political changes.*

***Keywords:** tourism, politics, investments, infrastructure, coastline.*

***JEL Classification:** D72, L83, Z32.*

1. Introduction

The Romanian coast is one of the most popular tourist destinations in our country, being visited annually by thousands of tourists both from the country and from abroad. The evolution of tourism on the Romanian coast was influenced by a number of factors, both internal and external, which led to significant changes in this sector in recent years.

In this article, we will analyze the aspects related to the evolution of tourism on the Romanian coast, including investments in infrastructure, tourism offer, economic and political changes and their impact on the tourism sector.

2. Investments in infrastructure

One of the most significant changes regarding the evolution of tourism on the Romanian coast was the investment in infrastructure. In recent years, several hotels have been built and some of the oldest accommodation units have been modernized. Additionally, several roads and highways were built and modernized, which made access to the coast easier and faster.

In addition, investments were also made in other infrastructures, such as those related to utilities, public transport, beaches and resorts. In the seaside resorts, parks, markets and leisure spaces were set up and modernized.

These investments led to an increase in the quality of the services offered to tourists, to the improvement of comfort and accommodation conditions and to a better accessibility of the coast.

Also, several highways have been built and work is underway to complete a train line that will connect the coast with the rest of the country. These investments made it easier for tourists to reach the beach and reduce travel time, which increased the attractiveness of the Romanian coast as a tourist destination, thus increasing the number of jobs in the tourism sector.

However, there are still many things that can be done to improve the infrastructure and tourist services on the Romanian coast.

2.1 Touristic offer

Before, tourists came mainly for the sunny beaches and to relax.

Nowadays, there are many more options for entertainment and activities, such as museums, water sports, concerts, festivals, and exhibitions. There is also an increased number of restaurants, bars and clubs.

This diversification of the tourist offer has led to an increase in the number of tourists visiting the Romanian coast and to an increase in income in the tourism sector. In addition, this diversification of the tourist offer led to an increase in the length of stay of tourists on the coast.

Despite these recent additions, there are still many things that can be done to improve the tourist offer on the Romanian coast, such as the development of cultural, religious and historical tourism programs or the creation of new leisure activities.

3. Economic and political changes

The evolution of tourism on the Romanian coast has been one of the most important in the tourism industry in our country in recent decades. From the development of the infrastructure and the modernization of accommodation units, to the improvement of the tourist offer and the increase in demand, the Romanian coast has gone through a series of changes that have influenced the way tourists perceive this destination.

In addition, the investments in the modernization and construction of new hotels and apartments brought more comfort and services to tourists. Many tourism operators have invested in renovating and modernizing accommodation units, offering tourists a wide range of accommodation options, from luxury hotels to guesthouses and hotel-style rental apartments. Also, new hotels were built, especially on the southern coast, to meet the demand of tourists looking for accommodation in quieter and more exclusive areas. These investments made the Romanian coast offer a much more pleasant and comfortable tourist experience.

In addition to investments in infrastructure and the construction of new hotels, the tourist offer on the Romanian coast has diversified significantly. Before, tourists came mainly for the beach and for relaxation, but in recent years many options for entertainment and activities have been developed. In recent years, several cultural and entertainment events have been organized, such as concerts, music festivals, exhibitions and gastronomic festivals, which have attracted an increasing number of tourists to this area. An important factor for attracting tourists to the Romanian coast was the granting of vacation vouchers to public and private sector employees. In this way, even the employees who benefit from modest salaries could organize their vacations in Romania.

However, tourism on the Romanian coast was also affected by external factors, such as the economic and health crises and political problems. These led to a decrease in the number of tourists and a decrease in the demand for tourist services.

4. The evolution of tourism on the Romanian coast - an analysis of the factors that have influenced the changes in recent years

The Romanian coast has always been one of the most popular tourist destinations in Romania, attracting both Romanian and foreign tourists. However, the evolution of tourism on the Romanian coast has been influenced by several factors in recent years, from changes in infrastructure and tourist offer, to economic crises and political problems.

During economic downturns, tourists reduced their expenses and preferred to travel to cheaper destinations. Also, the political problems led to a decrease in the number of tourists, as many avoided traveling to areas affected by political instability.

Travel agencies from abroad have withdrawn their tourist offers for Romania, significantly decreasing the influx of foreign tourists.

Therefore, the tourism sector remains vulnerable to economic and political changes and must constantly adapt to new challenges. Next, we will analyze in more detail the impact of these factors on tourism on the Romanian coast and what measures can be taken to increase tourist attractiveness.

4.1. The influence of infrastructure investments on the evolution of tourism on the Romanian coast

In recent years, significant efforts have been made to improve the infrastructure in this area, including the construction of new roads and highways, the modernization of airports and the expansion of the public transport network.

These investments had a positive impact on tourism. By improving accessibility and reducing travel times, tourists can reach the Romanian coast more easily, which increases the attractiveness of this destination. Also, the modernization and construction of new accommodation units increased the accommodation capacity, thus allowing the reception of a larger number of tourists.

However, there are still many challenges regarding infrastructure investments. One of the biggest problems is the transport infrastructure, especially regarding the connection with other areas of the country. There are still areas where road access is difficult and the public transport infrastructure is still underdeveloped. Also, the tourist infrastructure still requires improvements, including the modernization of some older hotels and the construction of new tourist facilities.

Infrastructure investments represent an important opportunity to increase the tourist attractiveness of the Romanian coast. The government should continue to allocate significant resources to improve the infrastructure in this area and to attract more tourists. These investments must aim not only at improving the transport infrastructure, but also at the modernization of tourist facilities and other related services.

Building blocks of flats without having a well-established architectural plan in tourist resorts has led to an increase in unfair competition regarding the provision of comfortable conditions and quality of tourist services, to the detriment of accredited tourist units, encouraging renting at prices below the zone limit, such as and the creation of conflicts between tourists and residents regarding compliance with the rest schedule.

In conclusion, infrastructure investments are a key factor in the evolution of tourism on the Romanian coast. They have a positive impact on tourism, improving accessibility and accommodation capacity. Significant investments are still needed to address the challenges in terms of transport and tourism infrastructure.

4.2. Job offers in the summer season

Qualified tourism staff includes people with various specializations, such as chefs, waiters, bartenders, receptionists, entertainers, tour guides, hotel managers, marketing and sales specialists, but also other professions specific to the tourism field.

These professionals are particularly important to the tourism industry as they bring skills and abilities necessary to provide quality services and ensure customer satisfaction.

Since the tourists who come to the coast still want quality services, a big problem is raised by the qualified staff. The job offer for the summer period is varied, addressing especially young people who want to find a job for the specified period. Due to the fact that the educational offer for the tourism industry has decreased, it is very difficult to find

specialized staff, so that employees brought from other countries are called upon to make up for the labor shortage.

To have qualified personnel in tourism, they must follow professional training programs or obtain a diploma in the field of tourism or a specific specialization in the hotel industry. In addition, it is important for those who want to work in the hospitality industry to have communication and interaction skills with customers, to be flexible and able to work in a team and to be open to change and adapting to market demands.

4.3. The role of sustainable tourism in the evolution of the Romanian coast

Sustainable tourism plays an important role in the evolution of the Romanian coast. It refers to the promotion of tourism in a responsible way, so as to ensure the protection of the environment and natural resources, as well as the improvement of the life of local communities.

One of the most important challenges for sustainable tourism on the Romanian coast is the negative impact of mass tourism on the environment. Increasing the number of tourists can lead to water and soil pollution, the destruction of natural habitats and the depletion of natural resources. Therefore, it is important that tourism is managed responsibly, so as to minimize the negative impact on the environment.

In addition, sustainable tourism plays an important role in the economic development of local communities. It can create new jobs and help increase tourism revenues in the region. Also, by promoting local trade and traditional products, sustainable tourism can help develop the local economy and preserve the area's cultural heritage.

In order to promote sustainable tourism on the Romanian coast, an integrated approach and collaboration between the various interested parties, including local authorities, tourist operators and local communities, is necessary. Environmental protection measures must also be taken into account, such as reducing energy consumption, reducing waste and promoting sustainable transport.

In conclusion, sustainable tourism plays an important role in the evolution of the Romanian coast. By managing tourism responsibly, it is possible to ensure the protection of the environment and natural resources, as well as the economic development of local communities. It is necessary for all interested parties to work together to promote sustainable tourism and ensure a sustainable and beneficial evolution for all parties involved.

Although the Romanian coast has been recognized since the beginning of the 20th century as an attractive tourist destination, the evolution of tourism in this area has encountered certain challenges and obstacles. In recent years, however, significant efforts have been made to improve the tourist offer and to attract more tourists.

Among the most important aspects regarding the evolution of tourism on the Romanian coast is the diversification and modernization of the tourist infrastructure. This includes the construction of modern hotels and guesthouses, the development of tourist services, as well as investments in local transport and communications. Also, efforts were made to improve the quality of the beaches and to make them more attractive for tourists.

Another important trend in the evolution of tourism on the Romanian coast is the increasing popularity of health and wellness tourism. This type of tourism focuses on providing services and facilities to help tourists improve their health and relax. These include salt water therapies, massages, beauty treatments and other similar services.

In addition, in recent years, cultural tourism has become more and more popular on the Romanian coast. This trend focuses on the promotion of the cultural heritage of the area, as well as on offering excursions and cultural activities for tourists. For example, tourists can

visit old fortresses and medieval churches, explore local traditions and customs, or participate in festivals and cultural events.

5. Conclusions

The evolution of tourism on the Romanian coast was influenced by several factors, including investments in infrastructure and changes in the tourist offer. However, the tourism sector remains vulnerable to economic and political changes.

Summer tourism is constantly changing and adapting to new trends and demands of tourists. It is important that local authorities, tourist operators and local communities work together to promote sustainable and responsible tourism, so as to ensure a beneficial and sustainable development for all parties involved.

References:

1. Barbu, A., 2019. Strategii de marketing pentru promovarea turismului pe litoralul romanesc. *International Conference on Tourism and Hospitality*, 2, pp.107-115.
2. Botezatu, A., 2018. Turismul de sanatate si wellness pe litoralul romanesc. *Studii si Cercetari de Economie si Administratie*, 23(1), pp.27-38.
3. Chivu, A. and Tugui, A., 2020. Turismul cultural pe litoralul romanesc: oportunitati si provocari. *Revista de Turism*, 27(1), pp.38-50.
4. Ministerul Dezvoltarii Regionale si Turismului, 2021. *Strategia Nationala de Turism 2021-2030*. Bucuresti: Ministerul Dezvoltarii Regionale si Turismului.
5. Observatorul National de Turism, 2021. *Date si statistici privind turismul in Romania*. [online] Available at: <<https://observatorul.ro/statistici-turism-romania/>> [Accessed 12 March 2023].
6. Turism.ro, 2021. *Litoralul romanesc: cea mai completa ghidare turistica*. [online] Available at: <<https://www.turism.ro/litoralul-romanesc-cea-mai-completa-ghidare-turistica/>> [Accessed 12 March 2023].

OPERATING BUDGET – THEORY AND PRACTICE

Lecturer Ph.D., Cristina Aurora BUNEA-BONTAȘ

”Constantin Brancoveanu” University of Pitesti, Romania
Faculty of Management Marketing in Economic Affairs of Braila
E-mail: bontasc@yahoo.com

Abstract: A predictive management involves the planning and budgeting of the company's main activities and the control of compliance with the budget provisions, which makes the budget the main component of management control. Throughout the company's activity, no matter how perfect the company's strategy is, a control of forecasts is necessary in order to detect the causes that lead to the appearance of deviations, establish responsibilities and provide the necessary corrective measures. This article aims to present the operating budget of the company, its structure and the stages of the budgeting process. The advantages and disadvantages of using the operating budget as a predictive management tool are also emphasized.

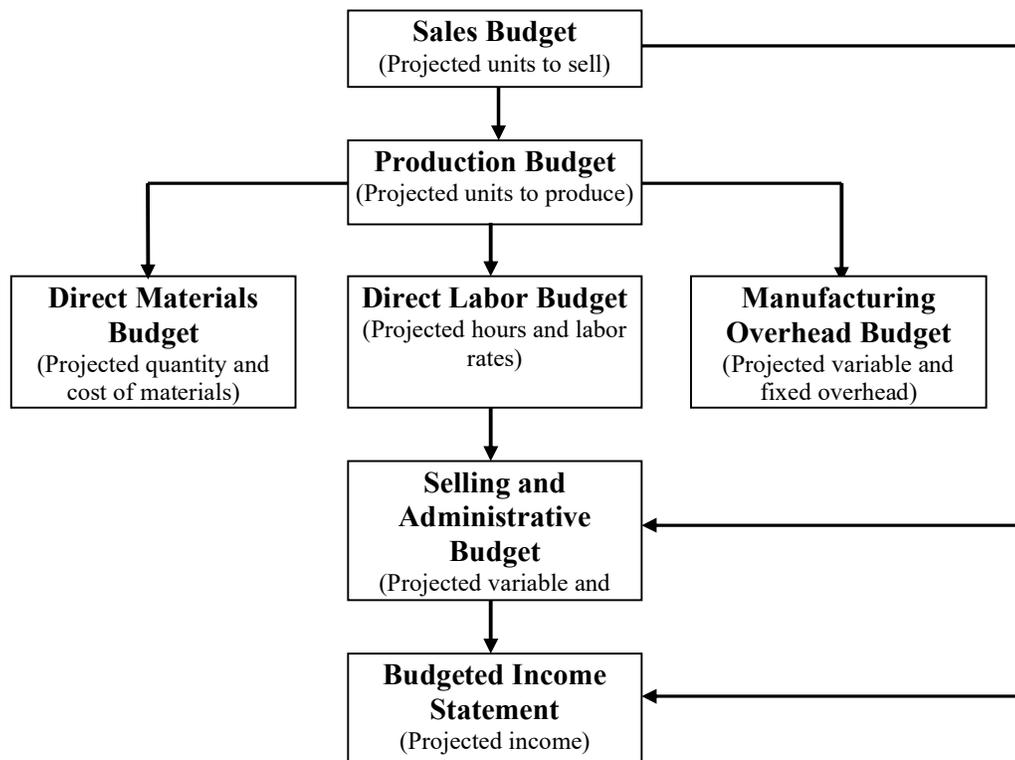
Keywords: budget, operating budget, sales budget, production budget, production cost budget.

JEL Classification: M41.

1. Introduction

The operating budget helps companies in planning future revenue, expenses and results in a projected income statement. The operating budget has several subsidiary budgets that begin with projected sales. Management uses the number of units from the sales budget to determine the quantity of units needed to be produced. This information is used in the production budget. The production budget is then divided into budgets for materials, labor, and overhead.

Figure no. 1. The structure of the operating budget



Source: Adapted from Graybeal P., Franklin M., Cooper D., 2019. *Principles of Accounting, Volume 2: Managerial Accounting*, Rice University, p. 355

Based on the information from the operating budget, the company's management should be able:

- to optimize the production process, taking into account limited availability of resources;
- to assess whether additional resources are needed in the following period;
- to determine the forecasted production cost of each product whose manufacture is planned during the budget period;
- to use the information on the production cost for the purpose of reporting the forecasted financial results;
- to prepare the forecast of cash flows, in terms of payments of suppliers and contractors, employees and other organizations and persons, who provide necessary services for the production activity.

2. Sales budget

In the market economy, the turnover represents the most important indicator of the economic activity of the company, because production, supply, the number and structure of the employed personnel and the necessary investments are determined according to sales.

The following steps are associated with preparing the sales budget:

1. determine the unit level of sales, broken down, if appropriate, by product, geographical area, market segment and/or period,
2. determine the unit selling price for each product, considering also the commercial discounts,
3. multiply the unit quantities by the unit prices and calculate the total units and the total sales for each category and as a whole.

Preparation of the sales budget should take into consideration some uncontrollable factors that might include:

- general economic trends, industry trends and specific market factors,
- interest rates and inflation,
- public policies and legal regulations,
- political conditions and global and regional events,
- actions of competitors, including new products and new manufacturing technology,
- availability of supplies and supplier action.

3. Production budget

The production budget estimates the number of units of each product that will have to be manufactured to achieve the anticipated sales. This budget is stated in units of the product or the quantity.

The preparation of the production budget involves:

- processing the information from the sales budget regarding the quantities of products to be manufactured (production schedule),
- dividing by quarters/months the quantities of forecasted products,
- estimation of the total production volume.

The production budget is an important part of the company's inventory control. If there is an accurate production budget, the business won't stock out of its product and it will also not hold outdated inventory since the quantity of the manufactured products is based on the sales forecast.

4. Production cost budget

The production cost budget provides a detailed overview of the estimated cost of carrying out the production plans as per the production budget. It represents the cost of various elements involved in production, such as materials, labor, and overheads.

The production cost budget includes:

a) The direct materials budget is calculated on the basis of the standard consumption established for every type of raw materials, separately for each product to be manufactured, the standard unit prices of materials and the production schedule of the budgeted period.

The direct materials budget uses the standard quantity and standard price for raw materials that need to be purchased.

This budget helps purchasing department to prepare purchase schedule to enable uninterrupted delivery of materials for production. It also helps finance managers to determine finances required to meet the production targets. Thus, this budget helps in managing cash flows in a better way as it notifies the exact amount and timing of the expected cash flow required in the future.

b) The direct labor budget is determined by analytical calculation for each manufactured product, using the number of labor hours, wage rates per time unit and the production schedule of the budgeted period.

The direct labor budget uses the standard direct labor rate and the standard direct labor hours that need to be scheduled.

This budget helps management to identify labor shortages and make necessary adjustments in order to avoid any production disruption.

c) The manufacturing overhead budget includes the remainder of the production costs not covered by the direct materials and direct labor budgets. Some examples of manufacturing overhead costs include the following:

- wages for managers and supervisors in the manufacturing facilities,
- depreciation on the manufacturing equipment,
- depreciation, rent and property taxes on the manufacturing facilities,
- repairs and maintenance for the manufacturing equipment,
- workplace health and safety, protective equipment and all associated costs,
- electricity and gas used in the manufacturing facilities,
- indirect factory supplies.

Because manufacturing overhead is an indirect cost, accountants are faced with the task of allocating overhead costs to each of the units produced. In the budgeting process, overhead costs are typically allocated depending upon their cost behavior production characteristics, which are generally classified as either variable or fixed. Based on this allocation process, the variable components are treated as occurring proportionately in relation to budgeted activity, while the fixed components are treated as remaining constant.

The allocation process may be a challenging task because there may be no direct relationship between the expense need to be allocated and the units produced. For example, the property taxes and insurance on the manufacturing buildings are based on the assets' value and not on the number of units manufactured.

A practical approach for preparing the material, labor and overhead, is using the historic quantities of the amount of material per unit and the hours of direct labor per unit to compute a standard used to estimate the quantity of materials and labor hours needed for the expected level of production. Current costs are used to develop standard costs for the price of materials, the direct labor rate, as well as an estimate of overhead costs.

5. Selling and Administrative Budget

The information in this budget is not directly derived from any other budgets.

In a practical approach, the amounts budgeted are based on the most recent budget or the most recent actual results.

An important aspect that should not be neglected is the forecast of sales expenses. These can be separated into variable expenses (packaging, distributors' salaries, commissions, and transport expenses) and fixed expenses (electricity and gas for warehouses, rent, depreciation, market studies, and advertising).

Administrative expenses refer to the costs incurred by a company that include, but are not limited to, the salaries and benefits of the administrative workers within the company, as well as rent and managerial compensation.

Once the operating budget is set and it begins to be applied, the company's activity should be controlled and its results should be verified to detect the degree to which expectations are being met. Through budget control, the actual data are compared with the budgeted data, and verify achievements, as well as correct differences. This process requires tools that allow deviations to be detected in time to be able to make the right decisions that correct the direction of the company's plan and is also capable of:

- integrate actual data and budgets in the same database,
- correct budget based on variance analysis using forecast calculations,
- generate early alerts of deviations through notifications,
- performing monthly, quarterly and annual analyses.

6. Conclusions

To achieve the proposed goals, well-managed companies plan their economic activities and allocated resources. The planning process using the operational budget has the following advantages:

- the assessment of the efficiency of the actions undertaken in terms of controllable revenue/expenses;
- making optimal decisions regarding the activity in the future, based on the comparison of the planned indicators with the actual ones;
- managing expenses through the optimal allocation of resources;
- the existence of a communication channel between managers and subdivisions, with efforts directed towards achieving the planned objectives;
- setting of an efficient accounting information system that provides necessary information especially for internal users;
- constraining the managers of the responsibility centers to foresee the consequences of their decisions, the budgets being a reference tool in decision-making;
- the participation in the planning activity of both the management and the executive staff.

An efficient budgetary system has a positive impact on the ability of the management to anticipate and respond with articulated measures to opportunities and pressures from the environment in which the company operates. The budgets are interactive tools between different levels of management, assuring an open dialogue within a company, this insuring the company's survival in a changing business environment, such as the present one.

There are several disadvantages associated with the use of operating budgeting within a business.

Time-consuming: The budgeting process may be very time-consuming, especially in a poorly-organized environment where many iterations of the budget may be required.

Also monitoring the budget can be time-consuming and may take away from other important tasks.

Inflexibility: The operating budget can be inflexible and may not allow the adjustment to some unexpected changes in circumstances, this leading to missed opportunities. If there are changes in the market environment during the budget year, the company should shift along with the market, rather than sticking to the budget.

Unrealistic targets: The targets set in the operating budget must be attainable, based on the company's history, the available resources as well as economic and industry trends. If targets are set too high, employees will perceive the budget as unachievable and they will likely become discouraged.

Consider only financial outcomes: The expected revenue is estimated to cover expenses of the year, however production and cost fluctuations, as well as slow-paying clients and uncollectible accounts receivable, can lead to temporary cash shortages.

Potential source for internal conflicts: A budget can create competition among staff and between departments. If a department does not achieve its budgeted results, other departments may be blamed. This may lead to conflicts and lack of teamwork and collaboration.

Other disadvantages, such as rigidity or complexity can be added to those previously mentioned.

In conclusion, budgeting can be a valuable tool and operating budget allows managers to plan ahead, allocate resources effectively, and improve communication and coordination. However, it's important to be aware of the potential disadvantages, which can be overcome by periodically updating the operating budget. The budget is dynamic and should change based on periodic reviews.

References:

1. Accounting Coach, 2023. *What is manufacturing overhead and what does it include?* [online] Available at: <<https://www.accountingcoach.com/blog/what-is-manufacturing-overhead-and-what-is-included>> [Accessed 20 March 2023].
2. Accounting Tools, 2023. *Selling and administrative expense budget.* [online] Available at: <<https://www.accountingtools.com/articles/selling-and-administrative-expense-budget>> [Accessed 20 March 2023].
3. Accounting Tools, 2023. *The disadvantages of budgeting.* [online] Available at: <<https://www.accountingtools.com/articles/what-are-the-disadvantages-of-budgeting.html>> [Accessed 20 March 2023].
4. Bajan, M. and Sîrbu, M., 2000. *Organizarea si Controlul Executării Bugetului Operațional / Formation and Control of Operating Budget.* [online] Available at: <https://irek.ase.md/xmlui/bitstream/handle/1234567890/590/Bajan_M_Sirbu_M_%20conf_12.03.20.pdf?sequence=1&isAllowed=y> [Accessed 20 March 2023].
5. Briciu, S., 2006. *Contabilitatea manageriala. Aspecte teoretice si practice.* Bucharest: Economica Publishing House.
6. Clowes, R. and Scriven, V., 2011. *Budgeting: a practical approach / National Institute of Accountants.* 2nd Edition. Pearson Australia. [online] Available at: <https://books.google.ro/books?id=qAfIBAAAQBAJ&pg=PA24&hl=ro&source=gbs_toc_r&cad=3#v=onepage&q&f=false> [Accessed 20 March 2023].
7. Epuran, M., Băbăiță, V. and Grosu, C., 1999. *Contabilitate și control de gestiune.* Bucharest: Economica Publishing House.

8. Finance Management, 2021. *Direct Materials Budget: meaning, components, format, advantages and variance analysis*. [online] Available at: <<https://efinancemanagement.com/budgeting/direct-materials-budget>> [Accessed 20 March 2023].
9. Graybeal, P., Franklin, M. and Cooper, D., 2019. *Principles of Accounting, Volume 2: Managerial Accounting*. Rice University. [online] Available at: <https://assets.openstax.org/oscms-prodcms/media/documents/ManagerialAccounting-OP_x3x7rSO.pdf> [Accessed 20 March 2023].
10. Pintea, M.O., Lacatus, V.D. and Deceanu, L.D., 2013. *Purpose for Budgeting – Literature Review*. [online] Available at: <https://conferinta2013.academiacomerciala.ro/_VOLCONF2013PDF/volumconferinta/PURPOSE%20FOR%20BUDGETING%20-%20LITERATURE%20REVIEW_pintea.pdf> [Accessed 20 March 2023].

WHISKY, A TASTY BUSINESS

Professor, Ph.D., Sorin-George TOMA

Faculty of Administration and Business,
University of Bucharest, Romania
E-mail: sorin.toma@faa.unibuc.ro

Abstract: *The fall of the former communist regimes from Central and Eastern Europe led to the widespread liberalization and globalization of markets. Today's business world is still highly influenced by the expansion of the globalization process worldwide. As a consequence, the business world has become increasingly integrated and the relationships among business organizations have developed exponentially in all domains of activity. Globalization has made available numerous different products and/or services to people from various countries around the world. In this respect, whisky has proved to be a valuable product that fulfils a basic human need and, therefore, has expanded at a global scale. The goals of the paper are to define the concepts of whisky and business and briefly present the evolution of the top ten world's largest export destinations for scotch whisky in the period 2020-2022. In this respect, the author used a qualitative research method. The results shows that the United States of America was the largest market for scotch whisky in the period 2020-2022. The countries from of Asia-Pacific region dominated the top of the world's largest export destinations for scotch whisky by value.*

Keywords: *whisky, scotch whisky, business, export destination, country, United States of America.*

JEL Classification: *F1, F19, M16.*

1. Introduction

The fall of the former communist regimes from Central and Eastern Europe led to the widespread liberalization and globalization of markets. However, the connections among national governments, globalization and businesses vary between countries in correlation to their stages of development or size (Dunning, 2003).

Today's business world is still highly influenced by the expansion of the globalization process worldwide. As a consequence, the business world has become increasingly integrated and the relationships among business organizations have developed exponentially in all domains of activity. It is much more difficult for a company, irrespective of its size and industry, to remain isolated in a deeply globalized business world (Johnson and Turner, 2010) that is in a close connection with an integrated global market (Toma, 2005; Passaris, 2006).

As an "accelerated interdependence of economic and business activities across national boundaries" (Shenkar and Luo, 2008, p.3) and "more closely integrated economies worldwide, with products, people and money moving more easily and in greater volume and value throughout the world" (Wall et al., 2010, p.13), globalization has made available numerous different products and/or services to people from various countries around the world. In this respect, whisky has proved to be a valuable product that fulfils a basic human need and, therefore, has expanded at a global scale.

The global whisky market is dominated by five leading exporters as follows: the United Kingdom of Great Britain and Northern Ireland (Britain, Scotland, Wales, Northern Ireland), the United States of America (USA), Ireland, Singapore, and Japan (Cheema, 2023). These countries produce renowned brands such as Johnnie Walker, Chivas Regal, Jack Daniel's or Suntory. Scottish Whisky is by far the best whisky in the world due to its impressive yearly export volumes (Cheema, 2023).

The goals of the paper are to define the concepts of whisky and business and briefly present the evolution of the top ten world's largest export destinations for scotch whisky in the period 2020-2022. In this respect, the author used a qualitative research method. The paper is structured as follows. The literature review is presented in the next section. The third section displays the research methodology. Results and discussion are illustrated in the following section. The last part of the paper ends with conclusions.

2. Literature review

During the time, the business concept has gained prominence and become one of the most important in the literature. It gained attention from both researchers and practitioners all over the world as any company has, more or less, a theory of its business (Drucker, 1994). Despite the lack of an universal definition, a business is:

- “a commercial company” (Collin, 2007, p.47).
- “an organization that produces and sells goods or that provides a service” (Brookes, 2011, p.66).
- “any activity that seeks to provide goods and services to others while operating a profit” (Nickels et al., 2012, p.4).
- “any organization that is engaged in making a product or providing a service for a profit” (Lawrence and Weber, 2017, p.4).
- “all profit-seeking activities and enterprises that provide goods and services necessary to an economic system” (Kurtz and Berston, 2019, p.2).
- “an organization or enterprising entity engaged in commercial, industrial, or professional activities” (Hayes, 2022, p.1).
- “a commercial or sometimes an industrial enterprise” (Merriam-Webster Dictionary, 2023, p.1).

In sum, the term “business” is defined differently by various authors. Based on the definitions mentioned above, some of its features may be highlighted as follows:

- A business makes products and/or provides services.
- A business may represent either an organization or an activity.
- Obtaining profit constitutes the aim of any business.
- A business may operate in the commercial or industrial sector.

In its turn, whisky appeared as a potable drink “in the search for the elixir of life (known by many as *usque beatha*)” (Stewart et al., 2014, p.1). Thus, the etymology of the word whisky comes from the Gaelic words *uisge* (water) and *uisge beatha/usquebaugh* (water of life).

The late medieval times witnessed the emergence of the oldest reference to whisky: “The Scottish Exchequer Rolls for 1494 had an entry of ‘eight bolls of malt to Friar John Cor wherewith to make aquavitae’ (a boll was an old Scottish measure)” (Skipworth, 1992, p.12). Whisky is:

- “a spirit obtained by distillation from a mash of cereal grains saccharified by the diastase of malt” (Davidson et al., 1994, p.1141).
- “a distilled alcoholic beverage produced from fermented grain mash where various grains are used for different varieties (e.g., barley, corn, rye, and wheat)” (Power et al., 2020, p.1).

There are different types of whisky around the world. Some authors consider that thirteen principal categories may be identified as follows (Offringa, 2017):

- single grain whisky;
- single malt whisky;
- blended grain whisky;
- blended malt whisky;
- blended whisky;
- bourbon whisky;
- rye whisky;
- Tennessee whisky;

- wheat whisky;
- corn whisky;
- Irish whisky;
- Canadian whisky;
- Japanese whisky.

Malt whisky is „simply a distillation of unhopped beer” whereas grain whisky is based on „an adjunct mash containing 90% of unmalted grain” (Bathgate, 2016, p.197). As the most marketed whisky in the world, Scotch whisky represents the whisky that is „produced and matured in Scotland in oak casks for a minimum of three years, from distilleries located in the five designated regions”: Lowland, Highland, Speyside, Islay, and Campbeltown (Bower, 2016, p.3).

The production process comprises the following five stages: brewing, fermentation, distillation, maturation, and bottling. The main raw materials in this process are maize, barley, wheat and rye as all of them are traditionally used for producing whisky (Pigott et al., 1989). Inspired by vivid entrepreneurialism (Grădinaru et al., 2017; Catană et al., 2020; Zainea et al., 2020) and characterized by strong leadership (Cornescu et al., 2004), deep strategic thinking (Toma, 2013; Toma and Grădinaru, 2016; Toma and Tohănean, 2019), modern management techniques (Marinescu and Toma, 2008; Toma, 2008a; Catană and Toma, 2021), real social responsibility and authentic consumer care (Toma, 2006; Toma, 2008b; Toma and Naruo, 2009; Toma et al., 2011; Imbrișcă and Toma, 2020), the whisky industry has flourished in the last decades (Gupta, 2023), and, consequently, the global whisky market has significantly expanded. The evolution of the world’s largest export destinations for scotch whisky in the period 2020-2022 is presented in this paper.

3. Research methodology

In order to achieve the goals of the paper, the author deployed a qualitative research method through desk research. First, he collected and analysed several information from various secondary sources of data, especially books and articles. Second, the author synthesized this information, structured the paper and wrote it.

4. Results and discussion

This section of the research presents the evolution of the world’s ten largest export destinations for scotch whisky in the period 2020-2022. In 2020, the USA dominated the top, followed by France and Singapore (Table no. 1). From a geographic point of view, five countries were from and Asia-Pacific region (Singapore, Taiwan, Japan, Australia, China), four countries were from Europe (France, Latvia, Germany, Spain), and one country from North America (USA).

Table no. 1. The ten largest export destinations for scotch whisky by value in 2020

No.	Country	Value (£m)
1	USA	729
2	France	375
3	Singapore	274
4	Taiwan	182
5	Latvia	176
6	Germany	139
7	Japan	114
8	Australia	113
9	Spain	109
10	China	107

Source: Scotch Whisky Association, 2021

In 2021, the USA remained the leader, followed by France and Taiwan (Table no. 2). From a geographic point of view, five countries were from and Asia-Pacific region (Taiwan, Singapore, China, India, Japan), three countries were from Europe (France, Germany, Spain), one country from North America (USA), and one country from Central America (Panama).

Table no. 2. The ten largest export destinations for scotch whisky by value in 2021

No.	Country	Value (£m)
1	USA	790
2	France	387
3	Taiwan	226
4	Singapore	212
5	China	198
6	Panama	177
7	Germany	148
8	India	146
9	Japan	133
10	Spain	118

Source: Scotch Whisky Association, 2023

The year 2022 witnessed the same hierarchy as in 2020 with the USA as a leader, followed by France and Singapore (Table no. 3). From a geographic point of view, five countries were from and Asia-Pacific region (Singapore, Taiwan, India, China, Japan), three countries were from Europe (France, Germany, Spain), one country from North America (USA), and one country from Central America (Panama).

Table no. 3. The ten largest export destinations for scotch whisky by value in 2022

No.	Country	Value (£m)
1	USA	1,053
2	France	488
3	Singapore	316
4	Taiwan	315
5	India	282
6	China	233
7	Panama	203
8	Germany	202
9	Japan	175
10	Spain	173

Source: Scotch Whisky Association, 2023

In short, the analysis of the evolution of the world's ten largest export destinations for scotch whisky in the period 2020-2022 conducts to the following main outcomes:

- The USA remained the largest market for scotch whisky in the whole period.
- The countries from Asia-Pacific region clearly dominated the hierarchy in that period.
- After the COVID-19 pandemic the world's consumption of scotch whisky soared significantly. In this sense, scotch whisky exports surpassed £6bn for the first time in 2022 (Scotch Whisky Association, 2023).

5. Conclusions

Since the rapid expansion of globalization after the failure of the communist regimes from Central and Eastern Europe, the business world has become more connected and, therefore, boosted the consumption of commodities at a global level. As a tasty and flavoured drink, scotch whisky constitutes a distilled alcoholic beverage favourite of many people from different continents.

The paper demonstrates that the USA was the largest market for scotch whisky in the period 2020-2022. The countries from of Asia-Pacific region dominated the top of the world's largest export destinations for scotch whisky by value. Also, the paper shows that in the post-COVID-pandemic period, scotch whisky exports registered the highest values in their history.

References:

1. Bathgate, G.N., 2016. A review of malting and malt processing for whisky distillation. *Journal of the Institute of Brewing*, 122(2), pp.197-211. [online] Available at: <<https://onlinelibrary.wiley.com/doi/pdf/10.1002/jib.332>> [Accessed 13 April 2023].
2. Bower, J., 2016. Scotch whisky: History, heritage and the stock cycle. *Beverages*, 2(2), pp.1-13.
3. Brookes, I., ed., 2011. *International Business English Dictionary*. Glasgow: HarperCollins Publishers.
4. Catană, Ș., Grădinaru, C. and Toma, S.-G., 2020. Sam Walton, a visionary entrepreneur. *Network Intelligence Studies*, 16, pp.113-117.
5. Catană, Ș. and Toma, S.-G., 2021. Marketing mix and corporate social responsibility in automotive industry - Case study: Mazda Motor Corporation. *Annals of the „Constantin Brâncuși” University of Târgu Jiu, Economy Series*, 1, pp.205-209.

6. Cheema, R., 2023. *5 countries that export the most whiskey in the world*. Insider Monkey, 03.02.2023. [online] Available at: <<https://www.insidermonkey.com/blog/5-countries-that-export-the-most-whiskey-in-the-world-1110702/>> [Accessed 17 April 2023].
7. Collin, P. H., 2007. *Dictionary of Business*. 4th edition. London: A & C Black.
8. Cornescu, V., Curteanu, D., Marinescu, P. and Toma, S.-G., 2004. *Management from Theory to Practice*. Bucharest: University of Bucharest Publishing House.
9. Davidson, G. W., Seaton, M. A. and Simpson, J., eds., 1994. *The Wordsworth Concise English Dictionary*. Ware: Wordsworth Reference.
10. Drucker, P. F., 1994. *The theory of the business*. Harvard Business Review, September-October 1994, pp.95-104. [online] Available at: <<https://www2.mvcc.edu/shn/inclusive/pdf/Theory-of-the-Business-hbr.PDF>> [Accessed 10 April 2023].
11. Dunning, J., ed., 2003. *Governments, Globalization, and International Business*. Oxford: Oxford University Press.
12. Grădinaru, C., Toma, S.-G. and Papuc, R., 2017. Entrepreneurship in the world: The analysis of the Global Entrepreneurship Index in the period 2015-2017. *Ovidius University Annals: Economic Sciences Series*, XVII(2), pp.14-18.
13. Gupta, M.S., 2023. *10 of the biggest scotch whisky-consuming countries around the world*. [online] Available at: <<https://www.lifestyleasia.com/ind/dining/drinks/biggest-scotch-whisky-consuming-countries-france-india-to-russia/>> [Accessed 18 April 2023].
14. Hayes, A., 2022. *What is a business? Understanding different types and company sizes*. Investopedia, 07.07.2022, p.1. [online] Available at: <<https://www.investopedia.com/terms/b/business.asp>> [Accessed 13 April 2023].
15. Imbrișcă, C. and Toma, S.-G., 2020. Social responsibility, a key dimension in developing a sustainable higher education institution: The case of students' motivation. *Amfiteatru Economic*, 22(54), pp.447- 461.
16. Johnson, D. and Turner, C., 2010. *International Business: Themes and Issues in Modern Global Economy*. 2nd edition. Abingdon: Routledge.
17. Kurtz, D.L. and Berston, S., 2019. *Contemporary Business*. 18th edition. Hoboken, NJ: Wiley.
18. Lawrence, A.T. and Weber, J., 2017. *Business and Society: Stakeholders, Ethics, Public Policy*. 15th edition. New York, NY: McGraw-Hill Education.
19. Marinescu, P. and Toma, S.-G., 2008. Implementing Lean Management in the Romanian Industry. In: T. Koch, ed., 2008. *Lean Business Systems and Beyond*. New York: Springer, New York, pp.269-276.
20. Merriam-Webster Dictionary, 2023. *Business*. [online] Available at: <<https://www.merriam-webster.com/dictionary/business>> [Accessed 15 April 2023].
21. Nickels, W.G., McHugh, J. M. and McHugh, S. M., 2012. *Understanding Business*. 10th edition. New York, NY: McGraw-Hill.
22. Offringa, H., 2017. *A Field Guide to Whisky*. New York, NY: Artisan.
23. Passaris, C.E., 2006. The business of globalization and the globalization of business. *Journal of Comparative International Management*, 9(1), pp.3-18.
24. Pigott, J.R., Sharp, R. and Duncan, R.E.B., eds., 1989. *The Science and Technology of Whiskies*. Harlow: Longman.
25. Power, A.C., Néill, C.N., Geoghegan, S., Currivan, S., Deasy, M. and Cozzolino, D., 2020. A brief history of whiskey adulteration and the role of spectroscopy

- combined with chemometrics in the detection of modern whiskey fraud. *Beverages*, 6(3), pp.1-13.
26. Scotch Whisky Association, 2021. 'Lost decade of growth' as tariffs and Covid hit Scotch Whisky exports hard. Scotch Whisky Association, 12.02.2021. [online] Available at: <<https://www.scotch-whisky.org.uk/newsroom/2020-scotch-whisky-exports/>> [Accessed 14 April 2023].
 27. Scotch Whisky Association, 2023. *Scotch Whisky exports over £6bn for first time*. Scotch Whisky Association, 10.02.2023. [online] Available at: <<https://www.scotch-whisky.org.uk/newsroom/scotch-whisky-exports-2022>> [Accessed 17 April 2023].
 28. Shenkar, O. and Luo, Y., 2008. *International Business*. 2nd edition. Thousand Oaks, CA: Sage Publications.
 29. Skipworth, M., 1992. *The Scotch Whisky Book*. London: Chancellor Press.
 30. Stewart, G., Russell, I. and Anstruther, A., 2014. An introduction to whisk(e)y and the development of Scotch whisky. In: Russell, I. and Stewart, G., eds., 2014. *Whisky: Technology, Production and Marketing*. 2nd edition. Oxford: Elsevier, pp.1-5.
 31. Toma, S.-G., 2005. Fordism, postfordism and globalization. *Amfiteatru Economic*, 7(17), pp.135-138.
 32. Toma, S.-G., 2006. From quality to the corporate social responsibility. *Amfiteatru Economic*, 8(20), pp.145-149.
 33. Toma, S.-G., 2008a. What is Six Sigma? *Manager*, 8, pp.152–155.
 34. Toma, S.-G., 2008b. Social responsibility and corporate citizenship in 21st century. *Amfiteatru Economic*, 10(23), pp.80-85.
 35. Toma, S.-G. and Naruo, S., 2009. Quality assurance in the Japanese universities. *Amfiteatru Economic*, 11(26), pp.574-584.
 36. Toma, S.-G., Stanciu, C. and Irimia, E., 2011. *Landmarks in the evolution of social responsibility of organizations in the twentieth century*. Proceedings of the 5th International Scientific Session Challenges of the Knowledge Society. Bucharest: PRO Universitaria, pp.1352-1360.
 37. Toma, S.-G., 2013. *Economia Întreprinderii*. București: Editura Universității din București.
 38. Toma, S.-G. and Grădinaru, C., 2016. From military strategy to business strategy. *Strategii Manageriale*, 31(1), pp. 227-233.
 39. Toma, S.-G. and Tohănean, D., 2019. Green business models: The case of a German automaker. *Quality-Access to Success*, 20(S2), pp.635-640.
 40. Zainea, L. N., Toma, S.-G., Marinescu, P. and Chițimiea, A., 2020. Combating unemployment through social entrepreneurship in the European context. *Business Ethics and Leadership*, 4(4), pp.85-98.
 41. Wall, S., Minocha, S. and Rees, B., 2010. *International Business*. 3rd edition. Harlow: Pearson Education Limited.

SUSTAINABLE LOGISTICS, AN INTELLIGENT BUSINESS MODEL

Associate Professor, Ph.D., Cristina GANESCU
“Constantin Brancoveanu” University of Pitesti, Romania
E-mail: cristina_ganescu@yahoo.com

Abstract: *Businesses gain competitive advantage if they manage to integrate corporate sustainability with environmental performance, economic contribution and social responsibility. The reduction of waste and environmental pollution, the use of non-polluting energy and the efficiency of the use of natural resources positively affect not only the environment, but also logistics, by reducing costs. A company's performance can be measured by resource productivity and waste reduction because waste does not add value to an activity. Adopting sustainable logistics is profitable for a business because the effect of responsible practices in sourcing, transportation, storage, packaging is cumulative. If sustainability intervenes at the level of each logistics activity, then we can talk about the integration of sustainable logistics. The implementation of sustainable logistics strategies becomes extremely important in the current global context. All sustainable logistics strategies are interdependent and interdependent. Waste management helps improve the quality of finished products, which could lead to reduced returns and reverse logistics efforts. Better information to stakeholders could reduce overstocking and subsequently waste. Such an intelligent business model facilitates the implementation of each strategy and generates a synergistic effect.*

Key-words: *logistics, sustainable logistics, business model, sustainable logistics strategies.*

JEL Classification: *Q01, M21, L21.*

1. Introduction

The concept of sustainable logistics is closely related, in the specialized literature, to intelligent business models. In today's environment, businesses gain competitive advantage if they manage to integrate corporate sustainability with environmental performance, economic contribution and social responsibility. Most companies focus on reducing waste and environmental pollution, using non-polluting energy and making the use of natural resources more efficient, with the aim of reducing the impact on the environment, but also with the aim of reducing the costs of logistics activity.

When organizations apply sustainability at the level of each logistics activity, we can talk about the integration of sustainable logistics. The implementation of sustainable logistics strategies becomes extremely important in the current global context. Smart business models facilitate the implementation of each sustainable logistics strategy and generate a synergistic effect.

2. Sustainable logistics and smart business models

In order to increase profitability, market share and reduce costs, logistics must operate at an interfunctional level, it must mediate and harmonize the activities of multiple sectors, departments or functions within the company. According to the author Ilieș (1999, pp.93-102), logistics is a transversal function, and its approach within the organization, respectively the optimizations, are done on processes, and not on functions.

The essential objective of logistics must be to ensure the competitive advantage, namely to ensure a sustainable superiority over the competitors, starting from the idea that the level of service to consumers and the cost are significantly influenced by it. The source of competitive advantage can be operating at a lower cost or providing a greater "value" to the client (Ganescu, 2016, p.157).

Logistics is a classic example of a systemic approach to business problems, respectively to the analysis of the total cost of logistics activities. Because the systemic approach requires compatibility between the objectives of the major functions in the company and its general, fundamental objectives, a logistics system, however efficient and effective, cannot suit all companies, which have different goals and objectives.

Sustainable logistics management includes sustainable planning, sustainable marketing, sustainable production, sustainable logistics. Sustainable logistics has thus become the "soul" of sustainable development.

There are many definitions of sustainable logistics in the specialized literature. Sustainable logistics represents the process of friendly use of environmental resources and the transformation of these inputs into outputs, which can be reused at the end of their life cycle, for the creation of "green" or sustainable logistics chains (Kumar and Candrakar, 2012, pp.1-6).

According to another view (Srivastava, 2007), sustainable logistics integrates environmental principles in logistics chains, including production planning, selection of resources and sources, production process, delivery of the final product to the customer and end of product life after the period of use.

Sustainable logistics is a broader concept, also taking into account the economic and social implications of activities, striving to improve economical, ecological and societal interests simultaneously (McKinnon, 2010).

Companies also expect to increase sustainability performance through implementing sustainable practices because of the negative environmental impact of their business operations (Agyabeng-Mensah et al., 2020).

The framework of sustainable logistics comprises three elements: society, environment and economy, each with its own objectives. The objectives of these three elements are oriented towards people, planet and profit, being basically a three-way exchange (Macharis et al., 2014, p.14).

Sustainable logistics strategies are becoming important in today's global context. The specialized literature presents different types of sustainable logistics strategies, such as (Mohanty, 1997, p.276):

- The strategy of using information technology (electronic data exchange is a computerized system through which consumers, suppliers and producers can transmit information in real time; this supports the maintenance of an optimal level of stocks, allows quick adoption of decisions);
- The strategy of reverse logistics (it is based on the reduction of resource consumption, reuse and recycling of materials);
- Waste management strategy (based on three principles: waste reduction, waste control and prevention).

All sustainable logistics strategies are interdependent and interdependent. Waste management helps improve the quality of finished products, which could lead to reduced returns and reverse logistics efforts. Better information to stakeholders could reduce overstocking and subsequently waste. The implementation of each strategy generates a synergistic effect (Ganapathy, 2014, p.13).

The recent digitalization advancements have provided new opportunities for the business to enhance the value creation of the logistics functions through achievements of the sustainability goals (Shreyanshu et al., 2022). Sustainable logistics 4.0 creates a dynamic system capable of responding to customer requirements while still respecting environmental protection objectives.

2. Innovative business techniques, philosophies and mindsets

The most important techniques for the success of logistics management, with a role in the fulfillment of strategic objectives and in solving the essential problems of an organization, are the Just-in-time method, Lean Manufacturing, Kanban systems and Total Quality Management, which lead to high quality, quick response and low costs.

The industrial revolution had important implications on the development of manufacturing management. At that time, in industry, the equipment and machines were fixed to the ground, and the employees performed the operations around them. Within this type of production organization, product quality was high, conversion costs were high, but productivity was low. In 1913, repetitive production appeared, which led to a decrease in conversion costs, but also in product quality, so that, in 1944, Ford's first production plants appeared, with assembly lines. After 1950, by combining Just-in-Time with Kaizen, Total Quality Management, Total Productive Maintenance, Cellular Manufacturing and Six Sigma, the Lean Manufacturing production system appears.

In the 1990s, logistics management integrated different concepts, such as Quick Response (QR), Efficient Consumer Response (ECR), Just-in-Time and Keiretsu networks. The first two contribute to increasing speed and flexibility, while Keiretsu resolves partnership relations.

The Quick Response (QR) program was created by the textile industry in the mid-1980s and required the organization to respond more quickly to consumer needs by sharing information, resulting in better customer service and lower inventory. In the mid-1990s, Efficient Consumer Response (ECR) was developed by the food industry, with the aim of increasing the competitiveness of distribution channels. Thus, the points of sale of the stores transmit, by computer, to distributors and manufacturers, information regarding the stock. Keiretsu-type networks represent coalitions between Japanese producers and their distributors, which are generally based on the financial support of the producers, offered to the distributors. But logistics management is most strongly associated with the Just-in-Time concept.

Even though most believe that Henry Ford and his company invented Just-in-Time practices, the term was originally associated with the name of Taiichi Ohno and the Toyota production system.

Just-in-Time represents a philosophy and a mentality that permanently accompanies the problem of reducing stocks, a way of organizing and controlling the production and management of the company's stocks, aimed at reducing the volume of stocks that the organization manages, based on the principle of "zero stocks" of raw materials and finished products and a sustained flow of production (Ganescu, 2016). The principles of the classic Just-in-Time system were (Krajewsky, Ritzman and Malhotra, 2007): producing a quantity that is needed, no more, no less; products must be completed at the planned time, neither earlier nor later; a supplier must deliver exactly the quantity ordered and at the time requested.

The name Just-in-Time has varied over time: zero stocks, minimum stocks, the Toyota system, Japanese-style production or continuous production.

Just-in-Time is based on the following principles:

a) The elimination of losses is imposed as an objective necessity at any stage in which the product is found, from the raw material until it reaches the customer's warehouse. The elimination of losses requires the company to pay attention to every factor that can cause, at a given moment, a damage to the production activity: the lack of correlation between the existing production capacity and the needs corresponding to a certain period of time, the oversizing of the personnel required, errors in the development process production, mismatch between production and market demand, etc.;

b) Continuous improvement is necessary to always be one step ahead of competitors, in the conditions of a world economy characterized by oversupply in almost any branch or sub-branch. At the level of the production process, the continuous improvement of the

manufacturing process is aimed at, which leads to an increase in labor productivity and, implicitly, to an increase in the economic efficiency of the entire activity;

c) Perfect quality (zero defects) must be ensured both for the product and for production, hence the major importance of quality management within the enterprise. In the case of Just-in-Time systems, quality is ensured at each workplace, and the worker who performs an operation is directly responsible for each machined part that leaves his machine;

d) Zero stocks is one of the principles with the most implications and links manifested directly in the production process. The application of this principle requires: the creation of absolutely mandatory premises related to the company's activity not only in the actual production, but also in its other functions, the elimination of uncertainties, the need to have stable and reliable suppliers, the appropriate design of products, parts and sub-assemblies, reducing to zero the probability of accidental failure of machinery and equipment, compliance with quality standards at any time and at every workplace, compliance with market requirements and concern for their satisfaction at any time, etc.;

e) Respect for the human factor is the principle that requires the longest period of time to be implemented. It assumes that every employee is treated as very important, regardless of the position they occupy in the hierarchy of the respective organization. It's not about the salary (this must be the consequence of the work done), but the person is just as important, regardless of whether he is an executive president, a manager or a simple worker. Organizations must implement an information system for all staff;

f) Long-term activity orientation is a principle according to which Just-in-Time must be seen as a long-term investment, both from the point of view of the costs it involves, but also from the point of view of the competitive advantages brought to the organization.

Just-in-Time remains an extremely current approach in modern management, but it must be remembered that it is created and based on a strong organizational culture.

For logistics management, Just-in-Time offers the following advantages: reduction of preparation time; a better quantitative control of stocks; more efficient use of employees with more qualifications; production planning and scheduling can be synchronized with demand; increasing and strengthening relations with suppliers; balancing the demand for materials with the availability of stocks; minimization of storage space; much smaller errors reported at certain time intervals, regarding the quantitative control of stocks.

The Just-in-Time philosophy has the role of releasing considerable cash flows and solving the increasingly thorny problem of storage spaces (Mincu and Comanescu, 2015, pp.55-80). The two rules that must be respected are: the elimination of everything that does not contribute to the increase of the added value of the products; cost reduction is not only based on calculations, but also on the knowledge of the phenomena manifested in the production process.

The Just-in-Time system is based on four fundamental dimensions:

- product modeling (quality, production modeling within the manufacturing cells, reducing the number of levels corresponding to material bills);
- process modeling (reducing the levels of bill of materials; in case of configuration with less than three levels of bill of materials, products enter the warehouse and leave only once during the production process);
- characteristics of human and organizational resources (ensuring the continuity of the learning and improvement process);
- production planning and control (production plan, capacity planning, demand planning, etc.).

The concept of fluent production, Lean Manufacturing or Lean Management, aims at the adaptability of the enterprise to market fluctuations (Badea and Burdus, 2009, pp.168-

179). They are systems capable of quickly adapting to all changes in the environment. The term Lean Manufacturing or Lean Production appeared for the first time in 1990, in the book "The Machine that Changed the World", written by James P. Womack, Daniel T. Jones and Daniel Roos, a book that explains the evolution of the Lean concept and industry practices auto.

Lean Management is a management system that focuses on eliminating all losses along the entire length of the logistics chain and in all processes in an enterprise and on placing human resources at the center of the device of exploiting all their intellectual capacity, throughout the enterprise structure and at all its echelons (Todorut and Cirnu, 2011, pp.153-160).

The key principles of Lean production are: perfect quality; minimizing losses by eliminating activities that do not add value; continuous improvement; flexibility and long-term relationships with customers and suppliers.

The Lean Management model enables adaptation to change and sustainable business development. Starting from the Just-in-Time method, the concept of fluent production considers the following aspects (Deac, Badea and Dobrin, 2010):

- Dimensioning the life cycle, because the logistics chain does not start at the entrance to the production space and does not end at its exit;
- Dimensioning of industrial processes, because losses in production do not result only from the production process, but from all the company's processes;
- Dimensioning of product ranges, as fluent manufacturing envisages the development of new products, in accordance with market requirements, within a short period of time.

To be effective, lean manufacturing must have two engines of progress: continuous improvement and incremental quality improvement. The appearance of non-conformities requires the application of two principles:

- the "iceberg" principle (information regarding a non-conformity highlights a very serious problem; the visible non-conformity is only the visible part of an iceberg; the Japanese specialist Ohno, a manager at Toyota, recommends that, when a non-conformity appears, five times the question "Why?" to find out its source);
- the "magic candle" principle (a non-conformity is like a magic candle that always burns; since most non-conformities are current issues, it is necessary to do a detailed analysis of each non-conformity to determine whether it is within the scope continuous improvement or on a segment of production).

The methods and tools used in Lean manufacturing are: 5S activities and visual management, standardization of work, Kaizen, teamwork. For a work environment where waste is eliminated, the five "S" operational practices are of particular importance. Thus, the 5S methodology for organizing and supporting a productive work environment aims (Mincu, 2014):

- sorting ("Sorting") involves separating necessary things from unnecessary ones;
- placing each thing in the right place ("Straightening") offers the possibility of easily observing the status of activities;
- cleanliness at the workplace ("Shining");
- standardization ("Standardizing") suggests the establishment of a program and work methods that facilitate the preparation for manufacturing and offering the products to the customer at every moment;
- the imposition of discipline ("Sustaining") consists in the persistent application of discipline in carrying out the other 5S practices.

The Kaizen method is a teamwork methodology used to systematically solve problems and apply improvement solutions, first implemented by the Toyota company. In martial arts, Kaizen means "moving forward with small, quick steps". In business, Kaizen principles aim at continuous improvement, maintaining order and efficiency of processes. Kaizen management involves all employees, who develop the spirit of initiative and involvement in the achievement of objectives. The Kaizen management system is the only management system that provides the development of performance culture at all levels of the organization, addressing all key processes and systems that contribute to the company's success.

Kaizen can be implemented if several conditions are met:

- the openness and involvement of the top management (it recognizes the favorable long-term impact and has an image of the evolution of the organization, directly leads the process of continuous improvement; creates a climate of trust and mutual respect);
- completion of an annual Kaizen Project, led by a dedicated manager;
- continuous training of employees, correlated with the organization's strategy.

The application of Kaizen management leads to significant financial performance, generated by continuous learning, the continuous increase of the value of employees, of the company, by eliminating, step by step, losses, excesses and discontinuities.

3. High-performing business models through Kanban and Six Sigma systems

Kanban is the generalized name that refers to a card-based signaling system that transmits information about the need to replenish a workstation. The Kanban system correlates all operations at the production level by flow, through cards, signs, buffer stocks. For the proper functioning of the Kanban system, the card signaling system is used simultaneously with the creation of Kanban surfaces or other methods in the same category.

The Kanban method is part of Just-in-Time and derives from a simple finding: "people who work in factories tend to overproduce". By means of the Kanban method, the establishment of product stocks is avoided, making the required product at the required time and in the required quantity (Buliga and Ignat, 2014, pp.241-244).

The Kanban system presents two reference elements (Chira, 2016, p. 182). First, this system promotes the decentralization of the coordination of material resource flow, so that the various warehouses only hold stocks of components and materials at a minimum level, corresponding to Just-in-Time production. Secondly, the system allows a self-coordination of the flow of materials between the manufacturer and suppliers, ensuring the prerequisites for the correct implementation of Just-in-Time.

The advantages of implementing the Kanban system are: speeding up the flow of materials; reducing the level of stocks; reducing the costs associated with the internal transport of material resources; increasing the quality standards associated with the production process.

Six Sigma is a methodology for reducing the number of defective products and increasing organizational excellence. This system, implemented in 1900 by Ford and perfected by Motorola, helps organizations to achieve increased competitiveness. It is based on a structured methodology, with statistical techniques, used to increase process performance or the quality of products or services by reducing process variation. Apart from statistical techniques, the methodology also uses other concepts, such as financial analysis and project planning.

The Six Sigma philosophy involves a structural and systematic approach to achieve outstanding improvements and progress. Increasingly, organizations applying Six Sigma are integrating the Lean method into their existing process improvement framework.

Although, initially, Lean and Six Sigma were applied separately by organizations, it was found that the two techniques are complementary, supporting the continuous improvement of the activity. Thus, fluent production without Six Sigma leads to obtaining fast but quality production; Six Sigma without fluent production means quality production but no value; fluent manufacturing with Six Sigma generates quality production at low cost.

In practice, logisticians use Lean Six Sigma Logistics techniques without realizing it. Given that the strong competitive environment involves changes in business models, companies apply Lean and Six Sigma to support cost reduction and quality improvement.

The concept of Lean Six Sigma Logistics represents the elimination of stocks through disciplinary efforts to understand and reduce variations, increasing speed and flows through distribution channels (Goldsby and Martichenko, 2005, p.6).

The Lean Six Sigma model is based on three important principles: logistics flow, logistics capacity and logistics discipline. These principles guide logisticians in their efforts to solve the challenges of logistics activity.

4. Conclusions

Business models that aim to introduce sustainable logistics generate financial performance, high product and service quality, low costs and logistical discipline. Adopting sustainable logistics is profitable for a business because the effect of responsible practices in sourcing, transportation, storage, packaging is cumulative.

Just-in-Time, Lean Manufacturing, Kaizen methods are important techniques for the success of logistics management and sustainable logistics, allowing adaptation to change and sustainable business development, eliminating losses, excesses and discontinuities. Also, Kanban and Six Sigma systems support the effort to reduce costs and increase quality standards associated with the production process.

References:

1. Agyabeng-Mensah, Y., Afum, E. and Ahenkorah, E., 2020. Exploring financial performance, and green logistics management practices: Examining the mediating influences of market, environmental and social performances. *Journal of Cleaner Production*, 258.
2. Azapagic, A., 2003. System Approach to corporate sustainability: A general management framework. *Process Safety and Environmental Protection*, 81(B5), pp. 303-316.
3. Badea, F. and Burduş, E., 2009. Contributions on the Lean Management in the current evolution of a company. *Economia. Seria Management*, 12(1), pp. 168-179.
4. Buliga, Z. and Ignat, G., 2014. Aspecte privind conceptul Just-in-Time. *Lucrări Ştiinţifice*, 51, pp. 241-244.
5. Chira, R., 2016. *Logistica mărfurilor*. Vol. 1. Bucureşti: ProUniversitaria.
6. Deac, V., Badea, F. and Dobrin, C., 2010. *Organizarea, flexibilitatea şi mentenanţa sistemelor de producţie*. Bucureşti: ASE.
7. Ganapathy, V., 2014. *Introduction to Green Supply Chain Management*, 1st Edition. Bookboon.
8. Ganescu, C., 2016. *Strategii si performanta in managementul logistic*. Pitesti: Independenta Economica.
9. Goldsby, T. and Martichenko, R., 2005. *Lean Six Sigma Logistics: Strategic Development to Operational Success*. Florida: J. Ross Publishing.
10. Ilieş, L., 1999. Logistica – sursă de competitivitate. *Management & Marketing*, pp. 93-102.

11. Krajewsky, L.J., Ritzman, L.P. and Malhotra, M.K., 2007. *Operations Management*. Pearson Prentice Hall.
12. Kumar, R. and Chandrakar, R., 2012. Overview of Green Supply Chain Management: Operation and Environmental Impact at Different Stages of the Supply Chain. *International Journal of Engineering and Advanced Technology*, 1(3), pp. 1-6.
13. Macharis, C., Melo, S., Woxenius, J. And Van Lier, T., 2014. *Sustainable logistics*. Emerald Group Publishing.
14. McKinnon, A., 2010. Environmental Sustainability: a new priority for logistics managers. In: A. McKinnon, S. Cullinane, M. Browne and A. Whiteing, 2010. *Green logistics, improving the environmental sustainability of logistics*. Kogan Page.
15. Mincu, C. and Comănescu, R., 2015. Operațiuni LEAN și JIT în industria ambalajelor flexibile. In: International Conference of the Institute for Business Administration, Bucharest 2015, pp. 55-80.
16. Mincu, C., 2014. Strategii operaționale digitale în managementul deșeurilor urbane solide. *Revista Calitatea-Acces la succes*, 15(S4), Societatea Română pentru Asigurarea Calității.
17. Mohanty, R.P., 1997. *Essentials of Supply Chain Management*, 3rd Edition. London: Mc Millan.
18. Shreyanshu, P., Kanchan, J., Angappa, G., Kowshikraman, S., 2022. Reflecting on an empirical study of the digitalization initiatives for sustainability on logistics: The concept of sustainable logistics 4.0. *Cleaner Logistics and Supply Chain*, Volume 4.
19. Srivastava, S.K., 2007. Green Supply Chain Management: A state of the art literature review. *International Journal of Management Review*, 9(1), pp. 53-80.
20. Todoruț, A.V. and Cîrnu, D., 2011. Lean Management in the current context of evolution of an organization. *Analele Universității "Constantin Brâncuși" din Tg. Jiu, Seria Economie*, 2, pp. 153-160.

LEGISLATIVE CHANGES IN THE FIELD OF LEGAL LABOR RELATIONS

Lecturer, Ph.D., Isabela STANCEA

“Constantin Brancoveanu” University of Pitesti, Romania

E-mail: stanceaiza@yahoo.com

***Abstract:** Interested economic agents, employees and all interested persons must be informed about the appearance of three normative acts that bring important changes in the field of labor legislation regarding the level of the minimum gross salary starting from 01.01.2023, the framework model of the individual contract of work and the approval of the annual quota of foreign workers admitted to Romania. Thus, starting from January 1, 2023, the gross minimum basic salary per country guaranteed in payment, provided for in art. 164 para. (1) from Law no. 53/2003 – The Labor Code, republished, with subsequent amendments and additions, is set in money, without including increments and other additions, at the amount of 3,000 lei per month, for a normal work schedule of 165,333 hours per month on average, representing 18,145 lei/hour. For the year 2023, a quota of 100,000 foreign workers newly admitted to the Romanian labor market is established.*

***Key words:** labor legislation, worker, employer, law.*

***Classification JEL:** KO, K1.*

1. Introduction

The changes brought by Law no. 283 of October 17, 2022 for the amendment and completion of Law no. 53/2003 - Labor Code, covers, among other things, the employee's right to request a transfer to a vacant position that provides him with more favorable working conditions if he has completed his probationary period and has been with the same employer for at least 6 months; in this case, the employer has the obligation to respond with reasons, in writing, within 30 days of receiving the employee's request. At the same time, the Labor Code stipulates that any unfavorable treatment of employees and employee representatives applied as a result of this request or the exercise of one of the rights provided by law is prohibited.

2. Changes in the field of labor legislation

From these provisions, specific derogatory provisions may be established by special laws only for the work or service relationships carried out by the personnel of the public emergency services, the personnel of the defense system, public order and national security, diplomatic and consular personnel, magistrates, the specialized auxiliary staff of the courts and the prosecutor's offices next to them, respectively for the service reports of public officials.

According to article 5 of the updated Labor Code¹, the principle of equal treatment of all employees and employers operates within labor relations. Any direct or indirect discrimination against an employee, discrimination by association, harassment or act of victimization, based on the criterion of race, citizenship, ethnicity, color, language, religion, social origin, genetic traits, sex, sexual orientation, age, disability, non-contagious chronic disease, HIV infection, political choice, family situation or responsibility, trade union membership or activity, membership of a disadvantaged category, is prohibited.

Direct discrimination is any act or deed of distinction, exclusion, restriction or preference, based on one or more of the criteria set out above, which has the purpose or effect of not granting, restricting or removing the recognition, use or exercise of the rights provided for in labor law.

Also, any apparently neutral provision, action, criterion or practice that has the effect of putting one person at a disadvantage compared to another person based on one of the criteria set out above constitutes indirect discrimination, unless that provision, action, criterion or practice is objectively justified by a legitimate aim and if the means to achieve that aim are proportionate, appropriate and necessary.

Harassment consists of any type of behavior that is based on one of the criteria aimed at discrimination and has the purpose or effect of harming the dignity of a person and leads to the creation of an intimidating, hostile, degrading, humiliating or offensive environment.

Discrimination by association consists of any act or deed of discrimination committed against a person who, although not part of an identified category of persons, is associated or presumed to be associated with one or more persons belonging to such a category of people.

Victimization is any adverse treatment, which comes as a reaction to a complaint or referral to the competent bodies, respectively to a legal action regarding the violation of legal rights or the principle of equal treatment and non-discrimination.

Article 6 (1) of the Labor Code provides that any employee who performs a job benefits from working conditions appropriate to the activity carried out, social protection, safety and health at work, as well as respect for his dignity and conscience, without any discrimination. All employees who provide work are recognized the right to collective negotiations, the right to the protection of personal data, as well as the right to protection against illegal dismissals.

For work of equal value or of equal value, any discrimination based on gender is prohibited regarding all elements and remuneration conditions. In the event that employees, employee representatives or trade union members submit a complaint to the employer or initiate procedures to ensure compliance with the rights provided for by law, they benefit from protection against any adverse treatment by the employer

The employee who considers himself the victim of an adverse treatment by the employer can apply to the competent court with a request for compensation and the restoration of the previous situation or the cancellation of the situation created as a result of the adverse treatment, with the presentation of the facts on the basis of which the existence of the respective treatment.

At the same time, the new legislative amendments also consider the express mention of the employee's possibility to carry out his activity in different workplaces, as well as whether the movement between them is ensured or settled by the employer, as the case may be.

The basic salary, other constituent elements of salary income, must be highlighted separately; as well as the frequency of salary payment to which the employee is entitled and the method of payment, as well as the duration and conditions of the trial period, if any. Regarding the trial period, the new legislative amendments establish that it is prohibited to establish a new trial period if, within 12 months, a new individual employment contract for the same position and with the same duties is concluded between the same parties

As well as the normal duration of work, expressed in hours/day and/or hours/week, the conditions for performing and compensating or paying overtime, as well as, if applicable, the ways of organizing work in shifts.

It is also clarified that any employee has the right to work for different employers or for the same employer, based on individual employment contracts, benefiting from the corresponding salary for each of them, but only under the condition of compliance with the requirement regarding non-overlapping work schedules. However, the prohibition to apply unfavorable treatment to the employee who exercises this right is also expressly regulated.

In addition to the old legislative provisions, the person selected for employment or the employee, as the case may be, will also be informed about the following elements:

- the right and conditions regarding professional training offered by the employer;
- the employer's bearing of private medical insurance, additional contributions to the employee's optional pension or occupational pension, in accordance with the law, as well as the granting, at the employer's initiative, of any other rights, when they constitute advantages in money granted or paid by the employer to the employee as a result of his professional activity, as the case may be; this information must also be found in the content of the individual employment contract.

Also, the individual employment contract is amended, and the Labor Inspectorate makes available to employees and employers the framework model of this contract, established by order of the Minister of Labor and Social Solidarity, by publishing it on the institution's website.

According to article 19 of the updated Labor Code, if the employer does not inform the employee about all the elements provided by law, he can notify the Labor Inspectorate; in the case of employers who have established their own inspection bodies by law, the employee addresses them.

If the employer does not fulfill its obligation to inform, the person selected for employment or the employee, as the case may be, has the right to refer the competent court and request compensation corresponding to the damage suffered as a result of the employer's failure to fulfill the obligation of information.

Regarding working time, Article 11 of the updated Labor Code states that it represents any period in which the employee performs work, is at the disposal of the employer and fulfills his duties and responsibilities, according to the provisions of the individual employment contract, the applicable collective employment contract and/or the legislation in force.

The work schedule is the pattern of organizing the activity, which establishes the times and days when work begins and ends.

The work organization model represents the form of organization of working time and its distribution according to a certain model established by the employer. The employer can establish individualized work programs for all employees, including those who benefit from carer's leave, with their consent or at their request, which may have a limited duration.

Individualized work programs assume a flexible way of organizing work time. The daily duration of working time is divided into two periods: a fixed period in which the staff is simultaneously at work and a variable, mobile period in which the employee chooses his arrival and departure times, respecting the daily working time .

Any refusal of the request from employees to establish individualized programs must be motivated, in writing, by the employer, within 5 working days of receiving the request.

When the individualized work schedule has a limited duration, the employee has the right to return to the original work schedule at the end of the agreed period. The employee has the right to return to the original schedule before the end of the agreed period, in the event of a change in the circumstances that led to the establishment of the individualized schedule.

By flexible way of organizing working time is meant the possibility for employees to adapt their work schedule, including through the use of remote work formulas, flexible work schedules, individualized work schedules or work schedules with reduced working time .

Regarding leaves, the new amendments provide that, when determining the duration of annual leave, periods of temporary incapacity for work, those related to maternity leave,

paternity leave, maternal risk leave, leave for caring for a sick child, carer's leave are considered periods of activity performed.

The employer is obliged to grant carer's leave to the employee in order to provide care or personal support to a relative or a person who lives in the same household as the employee and who needs care or support as a result of a serious medical problem, lasting of 5 working days in a calendar year, at the written request of the employee.

The period of carer's leave is not included in the duration of annual leave and constitutes seniority in work and in the specialty.

By derogation from the provisions of Law no. 95/2006 on health reform, republished, with subsequent amendments and additions, employees who benefit from carer's leave are insured, during this period, in the social health insurance system without paying the contribution. The period of carer's leave constitutes a period of contribution for establishing the right to unemployment allowance and allowance for temporary incapacity for work granted in accordance with the legislation in force.

Serious medical problems, as well as the conditions for granting carer's leave, are established by joint order of the Minister of Labor and Social Solidarity and the Minister of Health.

The employee has the right to be absent from the workplace in unforeseen situations, determined by a family emergency caused by illness or accident, which make the immediate presence of the employee indispensable, provided that the employer is informed in advance and with the recovery of the absent period up to full coverage of the normal duration of the employee's work schedule.; in this case, the absence from work cannot last more than 10 working days in a calendar year.

The employer and the employee establish by mutual agreement the way to recover the period of absence.

For a better understanding, it is necessary to define some terms, as follows:

- The paternity leave is the leave granted to the father of the newborn child under the conditions provided by the Law on paternity leave no. 210/1999, with subsequent amendments and additions; the employer has the obligation to grant paternity leave at the written request of the employee, in compliance with the provisions of Law no. 210/1999, with subsequent amendments and additions, and the granting of this leave is not conditioned by the period of activity performed or the length of service of the employee;

- Carer's leave is the leave granted to employees in order to provide care or personal support to a relative or a person who lives in the same household as the employee and who needs care or support as a result of a serious medical problem;

- Carer is the employee who provides care or personal support to a relative or a person who lives in the same household as the employee and who needs care or support as a result of a serious medical problem.

According to article 243 of the Labor Code, the employer has the obligation to inform each employee of the provisions of the internal regulation, on the first day of work, and to provide proof of the fulfillment of this obligation.

Making employees aware of the provisions of the internal regulation can be done on paper or in electronic format, provided that, in the latter case, the document is accessible to the employee and can be stored and printed by him.

The internal regulation produces its effects in relation to the employee from the moment of his knowledge.

The service reports of civil servants can also be carried out telework, under the conditions provided by the Labor Code, as well as home-based work, according to the provisions of Law no. 53/2003, republished, with subsequent amendments and additions.

The activity carried out in the telework regime is based on the voluntary agreement of the parties and is carried out as a result of the approval by the head of the public authority or institution of the public servant's request.

The heads of public authorities and institutions establish by administrative act the structures within them, the activities, as well as the positions for which the telework activity can be approved.

The duration of the telework activity cannot exceed 5 days per month.

Carrying out teleworking activities can be approved for:

- a) civil servants who have children up to 11 years of age;
- b) civil servants who provide care to a relative, with whom they live in the same household;
- c) civil servants who have a state of health that does not allow them to travel to the headquarters of the authority or public institution, for reasons determined by some serious illness, or in the event of pregnancy, proven by a medical certificate;
- d) civil servants who carry out activities among those established by the head of the public authority or institution as being able to be carried out remotely.

Civil servants who work remotely have the following obligations:

- a) to have all the necessary means to fulfill their duties according to the job description;
- b) to respond to any request related to the professional activity received from hierarchical superiors, during working hours, sent by means of remote communication;
- c) to comply with the rules contained in the Organization and Operation Regulation of the institution, the Internal Regulation, the rules regarding the protection of personal data and other applicable specific rules and procedures, as the case may be.

Public authorities and institutions at the level of which there are public servants who carry out their activity in a telework regime have the following obligations:

- a) to verify the activity of civil servants, mainly through the use of information and communication technology;
- b) to ensure the method of highlighting the hours of work provided in telework mode by civil servants;
- c) to ensure that civil servants have the means related to information and communication technology and the functional, safe and necessary work equipment for the performance of work, or to make these means and equipment available to civil servants;
- d) ensure that civil servants receive sufficient and appropriate training in the field of safety and health at work, in particular in the form of information and work instructions on the use of equipment.

During the exercise of telecommuting or work at home, civil servants benefit from all the rights recognized by law, with the exception of the increase for difficult, harmful or dangerous working conditions.

3. Conclusions

Interested economic agents, employees and all interested persons must be informed about the appearance of three normative acts that bring important changes in the field of labor legislation regarding the level of the minimum gross salary starting from 01.01.2023, the framework model of the individual contract of work and the approval of the annual quota of foreign workers admitted to Romania.

References:

1. Labor Code updated 2023. Law 53 of 2003, Published in the Official Gazette, no. 75 of February 5, 2003, updated on October 17, 2022 by Law 283 of 2022;
2. Law no. 283 of October 17, 2022 for the amendment and completion of Law no. 53/2003 - Labor Code, as well as Government Emergency Ordinance no. 57/2019 regarding the Administrative Code.

THE DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP AS A TOOL FOR ECONOMIC PROGRESS

Ph.D. Student, Cristian PIECU
University of Craiova, Romania
E-mail: piecucristian@gmail.com

Abstract: *This paper addresses the need to develop social entrepreneurship as a tool for economic progress, but also as a way to support community needs. Thus, social entrepreneurship comes to use economic mechanisms and profit-generating activities to support social causes. A social economy structure pursues several directions at the same time, one social and one economic, unlike a pure commercial enterprise, which has a single purpose. The aims of a social economy structure are not always in line, there are conflicts of purpose and a certain managerial dynamic. The levers needed to achieve this objective are primarily economic mechanisms, supported by better legislation, with the ultimate aim of facilitating the labour market integration of disadvantaged groups by providing the financial support needed to advise people on how to start a business. This is the only way to ensure the successful implementation of new businesses and their long-term continuity.*

Keywords: *social entrepreneurship, economic mechanisms, disadvantaged groups, labour market.*

JEL Classification: *B55.*

1. The mission of social entrepreneurship

Nowadays, Romania is going through not only an economic crisis, but also a social crisis. In a society where the community is facing problems related to the business and non-profit sector, this paper aims to find concrete solutions, going beyond normative acts derived from management principles. Thus, the importance of social entrepreneurs is given a major purpose as they will have to face and explore the concrete challenges encountered in the process of implementing social entrepreneurship trends.

The role of social entrepreneurs is to be agents of change in the social sector by embracing the mission of creating and sustaining social value (not only private value), identifying and seeking new opportunities to achieve this goal, engaging in a continuous process of innovation regardless of the limited resources at their disposal.

Social entrepreneurs are also reforming and revolutionising their environment, the social mission being paramount. The latter is achieved by making systematic changes and sustainable improvements, seeking to solve the real causes of social problems. Fundamental to a social entrepreneur is the social mission that he or she undertakes, which is what distinguishes the social entrepreneur from the business entrepreneur. Making a profit or serving the needs of consumers can be considered the goals of a social entrepreneur, but they cannot be considered the end goals.

Where society faces problems, social entrepreneurs create opportunities. Through their actions, they are motivated not just by a perceived social need or compassion, but by a vision to make things better by putting it into practice. Over the last decade, social entrepreneurship has developed considerably and more than 300,000 jobs have been created in social enterprises, bringing people in precarious situations and disadvantaged groups into the labour market. The concern for this social sector has developed their innovative capacity to identify new needs, mechanisms for involvement and participation, forms of intermediate or permanent integration, and a new horizontal approach to health and training.

2. The major implementation directions of social entrepreneurship

In order to highlight the mission of social entrepreneurship and why it is becoming extremely important for the development of society and economic progress, the benefits it generates in the communities where it is implemented will be presented. Social entrepreneurship activities create jobs and opportunities, and at the same time create

employment or training opportunities for disadvantaged groups, making social entrepreneurship the link between the labour market and the unemployed. Moreover, social enterprises apply and develop innovation to achieve the development of new goods and services. The social problems most frequently addressed by social enterprises are: people with mental or physical disabilities, school drop-outs, drug abuse, increasing the employment rate of young NEETs, etc. At the same time, entrepreneurship creates social capital to support sustainable social and economic development, promoting social equity by helping disadvantaged people. Social enterprises address social problems and seek to make a sustainable impact through their social mission and not through profit maximisation. Despite these opportunities, due to inefficient social processes and weak legislation, social entrepreneurs seek to ensure that their enterprises always benefit the community. This requires first and foremost an objective analysis of the needs and benefits of the actions to be implemented. In conclusion, social entrepreneurship aims to achieve the objectives of the social economy.

The major directions that social entrepreneurship pursues are those related to social, environmental and economic factors. The social side aims at the competence of the business to create positive changes on the social environment, the environmental side looks at the impact of the business on the environment, and the economic side aims at making profit so that the business can operate and grow through self-financing, thus becoming sustainable.

Social entrepreneurship is primarily about creating new jobs in disadvantaged environments, such as integrating disadvantaged groups into the labour market or stimulating work environments for equal opportunities. The social entrepreneur essentially has a clear mission. They must be able to make important decisions when they intend to set up a social business, to carry out market research and identify competitors, while also taking risk management into account. We can add value to social entrepreneurship through innovation and creativity. Thus, it is not enough to have a business idea and think about how to implement it, it is crucial to implement it. Unfortunately, the biggest problem remains the lack of a legislative framework for social business and the low involvement of the public system. These shortcomings hinder the provision of a favourable environment for setting up social enterprises and developing existing ones.

Studies on the direction of social entrepreneurship in Romania show that the younger generation is adapting to such projects and successfully makes it through the first 2.3 years by implementing sustainable business plans, thus developing economically. Social entrepreneurship is primarily about small entrepreneurs as they are at the heart of community problems and seek real solutions to protect the most vulnerable. Unfortunately, in recent years there have been pressures from certain local communities, regulators, banks, credit and insurance companies that disadvantage small entrepreneurs. The solution for them to survive in the market is to invest in training and development courses for employees, support sports, cultural and educational objectives by involving employees in community action. In this respect, a company can work with other organizations or companies to promote social responsibility actions.

3. The challenges of social entrepreneurship

As the world of social entrepreneurship is relatively new, there are currently many challenges facing those who choose to implement business ideas. Above all social entrepreneurs try to predict, address and respond creatively to future problems. Unlike most business entrepreneurs who debate current market failures, social entrepreneurs address hypothetical or often less researched problems such as overpopulation, unsustainable energy sources, food shortages and the vulnerability of disadvantaged groups. Setting up successful

social businesses on only potential solutions can be almost impossible because investors will not take the risks of running the business. The lack of investors in this market segment leads to the second problem in social entrepreneurship, namely the wage gap. Elkington and Hartigan note that "the wage gap between commercial and social enterprises ... remains the elephant in the room, reducing [social enterprises'] ability to achieve long-term success and viability". In conclusion, social entrepreneurs and employees benefit from very low wages, particularly when starting up their businesses. As a result, their enterprises struggle to keep their employees skilled and committed to the work they do. Paradoxically, while social entrepreneurs offer solutions to mankind's most difficult problems, they have to contend with the scepticism of their own society.

Another reason why social entrepreneurs often lose out is that they usually offer help to those less able to pay for it. Capitalism is based on the exchange of capital (most obviously money) for goods and services. However, social entrepreneurs need to find new business models that do not rely on the standard exchange of capital to implement their organisations in a sustainable way. This self-sustainability needs to be thought through in the smallest detail to ensure the success of social enterprises.

The future of social organizations and social enterprises is to build a "more social, resilient and inclusive Europe". In order to achieve this lofty goal, it is necessary to introduce European legislative measures and economic policy programmes that promote and encourage the growth of social economy organizations and enterprises. This requires a number of particularly important factors: a taxation system that recognizes the general interest function of social economy enterprises, policies to promote public and private investment that stimulate the development of social impact financing, policies to support employment stability and the leading economic role played by social economy enterprise workers, and policies to support the implementation of new skills and the dissemination of innovation and new technologies in civil society. Social economy enterprises add value to society by developing new jobs and social innovation initiatives, including in the context of the green economy, promoting sustainable development. The circular economy experiences of social economy organizations are multiplying and new jobs are also being created in the field of re-use or social farming. The expected impact of the development of social entrepreneurship is primarily related to the ways in which it can support the community, especially vulnerable groups. The levers needed to achieve this objective are primarily economic mechanisms, supported by better specialized legislation, with the ultimate aim of facilitating the labour market integration of disadvantaged groups by creating the financial support needed to provide advice to people who are going to access business plans. This is the only way to ensure the successful implementation of new businesses and their long-term continuity.

The increasing the absorption of European funds dedicated to the social economy through the European Social Fund will help to develop this segment by facilitating the integration of disadvantaged groups into society. Economically powerful European countries with a tradition in this field best reflect the standard of living of vulnerable groups.

References:

1. Bălăceanu, C., 2012. *Transition from Governance to Governance*. Bucharest: Pro Universitaria Publishing House.
2. Blogul Patria Bank, 2021. *Despre antreprenoriatul social si economia sociala in Romania*. [online] Available at: <<https://www.patriabank.ro/blog/interviurile-patria/interviu-adv-romania-antreprenoriat-social>> [Accessed 15 March 2023].
3. Farrell, L.C., 2008. *How to become an entrepreneur*. Bucharest: Curtea Veche Publishing House.

4. Ghinea, M., 2011. *Entrepreneurship: the road from ideas to opportunities and business success*. Bucharest: Universul Juridic Publishing House.
5. Innovating Society, 2023. *Despre antreprenoriat social si inovare sociala*. [online] Available at: <<https://innovatingsociety.com/despre-antreprenoriat-social-si-inovare-sociala/>> [Accessed 15 March 2023].
6. Loghin, C., 2012. *The social economy-a challenge in Social Economic Debates Magazine*. no. 1/2012. Rosetti International Publishing House.
7. Statco, 2022. *Antreprenoriatul social: ce este si prin ce se diferentiaza de antreprenoriatul de business*. [online] Available at: <<https://startco.ro/blog/antreprenoriatul-social/>> [Accessed 15 March 2023].
8. Yunus, M., 2010. *Social Business Development*. Bucharest: Curtea Veche Publishing House.
9. Zamfir, E., *Social Economy Studies*. Romanian Academy. Quality of Life Institute.
10. Vlăsceanu, M., 2010. *Social Economy and Entrepreneurship*. Iași: Polirom Publishing House.

IMPLEMENTATION OF INTERNAL MANAGERIAL CONTROL STANDARDS WITHIN AN ECONOMIC ENTITY

Georgeta Margareta DOBRESCU
“Tomis” University of Constanta, Romania

Abstract: *The internal managerial control system is an integral and essential component of the institution's management that covers the entire activity. Internal managerial control, represents the set of forms of control exercised at the entity level, including internal audit, established by management in accordance with its objectives and legal regulations, in order to ensure the administration of own funds in an economic, efficient and effective manner, it also includes , organizational structures, methods and procedures. The internal managerial control system is a commitment assumed by Romania within the chapter 281 "Financial control" of negotiations with the European Union, the current chapter 32. By exercising the control function, the management of the entity ascertains the deviations of the results from the established targets, analyzes the causes that determined them and orders the necessary corrective or preventive measures. The proper implementation of the internal control system is the premise of exercising a correct management, according to the legal provisions, and gives assurance that the entity achieves the proposed objectives and that the management of the activities is efficient. The monitoring, coordination and methodological guidance of the implementation and development of the internal managerial control system is carried out by the Monitoring Commission (constituted by internal decision).*

Keywords: *internal audit, internal managerial control, Monitoring Commission, Internal managerial control standards, documented procedures.*

JEL classification: *M42.*

The organization of the internal managerial control system aims to achieve three categories of permanent objectives, which can be grouped as follows:

1) Effectiveness and efficiency of operation - includes the objectives related to the purposes of the entity and the use of resources in conditions of economy, effectiveness and efficiency, including the objectives regarding the protection of resources from inappropriate use or losses, as well as the identification and management of liabilities;

2) Reliability of internal and external information - includes the objectives related to the management of adequate accounting, the quality of information used within the entity or disseminated to third parties, as well as the protection of documents against two categories of fraud: concealment of fraud and distortion of results;

3) Compliance with laws, regulations and internal policies - includes the objectives related to ensuring that the entity's activities are carried out in accordance with the obligations imposed by laws and regulations, as well as with compliance with internal policies.

The internal managerial control system operates with a diversity of procedures, means, actions, dispositions, which concern all aspects related to the detailed activities, being established and implemented by the management to allow it to have a good control over the functioning of the entity as a whole, as well as to each activity/operation separately. Internal managerial control standards define a minimum of management rules, which the entity must follow.

The standards constitute a reference system, in relation to which the internal managerial control system is evaluated, the areas and directions of change are identified.

The development of the standards had as its objective:

- creation of a uniform and coherent internal/managerial control model;
- their application by all organizations, regardless of type, size and the product/service provided;
- the realization of a reference system and their use by internal and external parties for:

- to evaluate the organization's ability to satisfy the requirements of the internal/managerial control system;
- identifying areas and directions for change and/or improvement.

For the efficient implementation of the internal control system, an important role belongs to the Monitoring Commission.

Among the powers of the SCIM Commission we list, but are not limited to:

- coordinates the development of the organization's objectives and performance indicators;
- coordinates the inventory of activities within the organization, by fields of activity;
- reviews, approves and submits for approval the organization's system procedures and revises these procedures when it decides to do so;
- analyze, approve and present to the manager of the organization, for approval, the "Inventory of sensitive positions", "List of employees occupying sensitive positions" and "Plan for ensuring the rotation of employees from sensitive positions";
- coordinates the activity of establishing risk management measures and decides on the appropriate risk management measures;
- analyze, approve and submit for approval the "General Register of Risks" and the "General Plan regarding the implementation of risk management measures";
- permanently monitors and coordinates the activities of implementing risk management measures;
- aims, at the request of the leaders of the structures/microstructures, for new actions or revisions of terms, when dysfunctions occur in the implementation of risk management measures;
- decides on the way of managing the risks that were reported by the leaders of the structures/microstructures as being impossible to control through internal measures at the level of each department or direction, as the case may be, establishing the mechanisms for managing them hierarchically, up to the hierarchical level that can ensure their management.

In order to develop the internal managerial control system at the level of the economic entity, the responsible persons are obliged to carry out the following actions:

- Approving, updating and informing all employees of the code of ethical conduct. The designated ethics advisor is required to monitor compliance with the norms of ethical conduct;
- To permanently update the documents regarding the mission, internal regulations and job descriptions and communicate them to the employees;
- Identifying sensitive functions based on risk factors, as well as establishing an appropriate policy for their management by developing measures, so that the negative effects on the activities carried out within the company are minimal; the list of sensitive functions has been centralized and updated;
- Annual evaluation of the professional performance of employees in relation to the job objectives. Both managers and employees have the necessary knowledge, skills and experience to carry out the tasks assigned to them in order to achieve the established objectives;
- Establishing the organizational structure of the entity in accordance with the mission and purpose of the company, so that it supports the decision-making process through an appropriate delegation of responsibilities and serves the

achievement of the established objectives in conditions of economy, efficiency and effectiveness;

- Translation of general objectives into specific objectives and into expected results for each activity. The specific objectives respond to the "SMART" package of requirements, they are realistic, include relevant, measurable indicators, with deadlines and specifying the expected results;
- Development by department heads of strategic and annual/multiannual activity plans, which include specific objectives, activities, performance indicators, risks associated with the objectives and periodic reporting on the realization of the plans and the achievement of performance indicators;
- Performance monitoring for specific objectives by means of quantitative and/or qualitative indicators, including regarding economy, efficiency and effectiveness;
- Elaboration of documented procedures in accordance with the system procedure regarding the elaboration of procedures; for the processes and activities, declared procedural, there is adequate documentation and the operations are recorded in documented procedures;
- The managers of the departments initiate, apply and develop appropriate tools for supervision and control of the processes and activities specific to the department, in order to carry them out in conditions of economy, efficiency, effectiveness, safety and legality;
- Heads of departments check and approve the activities of employees, give the necessary instructions to ensure the minimization of errors and losses, the elimination of irregularities and fraud, compliance with legislation and the correct understanding and application of documented procedures;
- The inventory at the departmental level of generating situations that can lead to discontinuities in activity and the business continuity plan is drawn up, which is based on the identification and evaluation of the causes that can affect operational continuity. The business continuity plan is known, accessible and applied in practice by the employees who have established tasks and responsibilities in its implementation;
- The types of information, their content, quality, frequency, sources, recipients are established and an effective internal and external communication system is developed, so that management and employees can perform their tasks effectively and efficiently;
- Rules are defined regarding the registration, dispatch, drafting, classification, filing, protection and preservation of documents;
- Creation of an own document archiving system, according to a system procedure, in order to ensure their preservation in good conditions and to be accessible to the staff to use them;
- Carrying out an evaluation of the internal managerial control system through the departments, in accordance with Annex 3 and Annex 4 of OSGG no. 600/2018;
- Elaboration, annually, of a report on one's own managerial internal control system by assuming managerial responsibility;

Regarding the non-implementation of SCIM, according to OG 119/1999 on internal control and preventive financial control with subsequent amendments and additions and the order of the General Secretariat of the Government no. 600/2018 for the approval of the Code of internal/managerial control of public entities, this may lead to:

1. Illegal and inefficient use of own funds;
2. Illegality of administrative and management acts;
3. Exercising an illegal management;
4. Registration of sanctions due to non-implementation of SCIM.

Internal control is now widely used in governance systems and stakeholders are demanding better quality outcomes, accountability and transparency.

The implementation of the internal control system is a continuous process to which all the entity's personnel contribute.

In order to implement the internal managerial control, the staff with attributions in this regard face difficulties, of which we mention:

- Bureaucratization specific to entities;
- Resistance to the application of new concepts by employees in carrying out activities;
- Insufficient support given by the manager to the employees;
- Limited knowledge in this field;
- Lack of examples of practical cases.

In order to improve the internal managerial control activity in Romania, the specialists in the field propose the following solutions:

- The center of gravity of the internal control evaluation, to be based on the results obtained from the activity and less on the fulfillment of job duties, respectively the responsible person identified small risks, performed his activity, but did not identify significant risks;
- Establishing the general evaluation criteria of the implementation stage of the internal managerial control standards, which would impose the emphasis on the results obtained and not on the preparation of documents. In this case, the designated person established control measures, but there were cases of significant risks that were manifested beyond the tolerance limit allowed by the entity's management. The documents were drawn up but the result was not what was expected;
- The evaluation of the activity of the entity's manager regarding the results obtained in the implementation of the internal managerial control system, to be carried out by fulfilling some performance indicators established by legislation. The realization of these indicators should be mandatory, thus motivating the management to comply with the requirements listed in the internal managerial control standards;
- Updating the sanctions for non-application of the Internal Managerial Control Code. The new sanctions should target important elements in the field of internal managerial control system that must be applied in practice by the management.

Recent reforms and increased professionalism demonstrate the dynamic character of internal public control; internal control in different member states is still in transition and the European Commission in partnership with member states helps to implement the internal control system by:

- Creation of a Compendium of internal public control systems in the Member States of the European Union (2012, updated in 2014);
- Management of an internal public control network;
- Initiating and managing an internal control working group;
- Organization of conferences with member states on the topic of internal control.

Experts recommend that all countries adopt an internal control system, even if it requires time and a change in administrative culture.

The biggest challenge to the effectiveness of internal control is largely represented by deep-rooted informal practices. Control can be an effective tool in the fight against corruption and waste of public resources, when it is independent of political power.

The basic principle of Romanian managerial internal control can be "learning from one's own mistakes, by applying the Trial-Error-Correction method".

We can conclude that, "Non-implementation or deficient operation of the internal managerial control system is likely to raise questions about the way the entity operates, as well as the quality of the managerial act, especially regarding legality, economy, efficiency and the effectiveness of its activities."

References:

1. Garitte, J.P. and Tomoială, M., 2020. *Manual of internal managerial control in the public sector*. Bucharest: University Publishing House.
2. Ghiță, M., Domnișoru, S. and Pelinaru, N., 1998. *Banking and fiscal financial control*. Reprography of the University of Craiova.
3. Ghiță, E., 2017. *Internal Public Audit*. Craiova: Sitech Publishing House.
4. International Organization of Supreme Audit Institutions, 2023. *About us*. [online] Available at: <<http://www.intosai.org/about-us.html>> [Accessed 15 May 2023].
5. Loebbecke, A., 2003. *Audit, an intelligent approach*. Bucharest: ARC Publishing House.
6. Ministry of Public Finances, 2014. *Central Harmonization Unit for Internal Public Audit. Guideline - Evaluation of internal control for the purpose of carrying out internal public audit missions*. Bucharest.
7. Morariu, A. and Suciu, G., 2004. *Accounting of public institutions*. Bucharest: University Publishing House.
8. Năstase, M. and Zecheru, V., 2005. *Management of the internal audit "object"*. Bucharest: Economic Publishing House.
9. The Court of Accounts, 2011. *Guide for evaluating the internal control system in public entities*, p. 10.

INVENTORY OF GOODS IN THE PUBLIC DOMAIN OF ADMINISTRATIVE-TERRITORIAL UNITS

Assoc. Professor Ph.D., Daniela POPA
“Tomis” University of Constanta, Romania
E-mail: popadaniela64@gmail.com

***Abstract:** Inventory represents the set of factual verification operations of the existence of patrimonial elements in terms of quantity, quality and value, an operation to identify goods that belong to the public and private domain of administrative-territorial units. Accounting must provide a faithful, clear and complete picture of the patrimony. Sometimes, however, discrepancies may appear between accounting data and reality, caused by certain economic and natural phenomena, negligence, mistakes, embezzlement, etc. Concordance between written and real information can be checked with the help of the process called inventory. Accounting, as the main management tool, must provide real information on the activity of the patrimonial unit, in order to adopt scientifically based decisions. In order to achieve this objective, a fundamental condition is the complete agreement that must exist between the data recorded in the accounts and the factual reality existing in the unit. The main means by which the real situation of the patrimony is ascertained and which allows the comparison of the data obtained in this way with the accounting data, is represented by the inventory.*

***Keywords:** inventory, accounting, public domain, administrative-territorial unit.*

***Clasificare JEL:** G31.*

1. Inventory of goods from the public domain of administrative-territorial units

All assets belonging to administrative-territorial units are subject to annual inventory. The deliberative authority is presented annually, by the executive authority, with a report on the situation of asset management.

The inventory of the goods that make up the public domain of the administrative-territorial unit is drawn up and updated by a specially constituted commission, led by the executive authority or by another person empowered to exercise the respective powers, as the case may be.

The provided commission is constituted by the disposition of each executive authority of the administrative-territorial unit.

The provided commission has the obligation to update the inventory of the goods that make up the public domain of the administrative-territorial unit within no more than 90 days from the modification of the legal regime of the respective goods.

The planned inventory is certified by decision of the deliberative authority of each administrative-territorial unit.

The decision will be accompanied, under penalty of nullity, ascertained under the law, at least by the following documents:

a) documents proving the right of ownership, accompanied by extracts from the land register, showing the registration of the ownership right in the land register and the fact that the property in question is not encumbered by encumbrances;

b) self-responsible declaration of the general secretary of the administrative-territorial unit from which it appears that the asset in question is/was not the subject of any litigation at the time of the adoption of the decision.

As an exception to letter a, in the event that there are no documents proving the right of ownership of real estate in the public ownership of the commune, the city, the municipality or the county, these assets can be registered in the public domain of the commune, of the respective city, municipality or county, the inventory attestation decision

provided for is accompanied by a declaration on the personal responsibility of the general secretary of the administrative-territorial unit, regarding the following:

a) the property in question is not the subject of any litigation regarding its belonging to the public domain of the respective administrative-territorial unit at the date of signing the declaration;

b) the property in question is not the subject of requests for the reconstitution of the right of private ownership or for restitution submitted pursuant to the normative acts that regulate the legal regime of real estate taken over abusively by the Romanian state between March 6, 1945 and December 22, 1989.

The declaration on own responsibility, provided, signed by the general secretary of the administrative-territorial unit, will be accompanied by a report on compliance with reality for the respective property, drawn up for the purpose of assuming what has been declared, signed by the head of the relevant department in the authority's specialized apparatus executive. The statement explicitly mentions the existence of the report and other supporting documents, as appropriate.

The draft of the decision regarding the attestation of the inventory of the goods that make up the public domain of the administrative-territorial unit is also communicated to the ministry with attributions in the field of public administration, accompanied by the prescribed documents within 10 days at most.

The Ministry with attributions in the field of public administration transmits, within a maximum of 60 days from the registration of the provided communication, a point of view regarding the draft decision, as well as the documentation related to it, based on the consultation of the authorities and interested institutions regarding the legal situation of the asset/assets that are the subject of the decision.

The authorities and institutions consulted according to the provisions transmit the necessary information within a maximum of 30 days from the date of registration of the request to the ministry with attributions in the field of public administration. Failure to communicate information within this term corresponds to the absence of any objection to the requested information.

In the situation where the ministry with attributions in the field of public administration, from the point of view communicated, notices aspects that contravene the legal provisions in force, the local public administration authorities make the appropriate changes in the draft of the provided decision within a maximum of 45 days from the date of taking knowledge of it.

In the situation where the ministry with attributions in the field of public administration, from the point of view communicated, does not notice aspects that contravene the legal provisions in force, the deliberative authority, upon the proposal of the executive authority, adopts the decision certifying the inventory of the asset/assets in the public domain of administrative-territorial unit.

The non-transmission of the point of view by the ministry with attributions in the field of public administration within a maximum of 60 days from the registration of the provided communication corresponds to the situation of the absence of any objection to those requested.

Based on the provided decision, the executive authority requests the territorial office of the National Agency for Cadastre and Real Estate Advertising to make the appropriate changes in the cadastre and real estate advertising records.

Inventory of goods in the public domain of the administrative-territorial unit:

a) constitutes an annex to the statute of the administrative-territorial unit and is updated whenever legal events occur;

b) it is published on the internet page of the administrative-territorial unit, in a section dedicated to the respective statute.

2. The need, role and types of inventory

Accounting, as the main management tool, must provide real information on the activity of the patrimonial unit, in order to adopt fundamental decisions from a scientific point of view. In order to achieve this objective, a fundamental condition is the complete agreement that must exist between the data recorded in the accounts and the factual reality existing in the entity.

The main means by which the real situation of the patrimony and the comparison of the data obtained in this way with the accounting data is determined, is the inventory. All these operations are carried out with the aim of evaluating the inventoried elements and agreeing the accounting data with the factual reality found. The necessity of inventorying the entity's heritage is explained by the special importance it presents for its practical activity.

First of all, it is the starting point for opening and organizing the operative and accounting record at the newly established patrimonial units.

At the beginning of the activity, the inventory has as its main object the establishment and evaluation of the patrimonial elements that constitute the contributions in kind and/or in money of the associations/shareholders or the private entrepreneur, depending on the form of organization of the economic unit.

Secondly, during the exercise, it is determined by the fact that certain differences may appear between the accounting data and the reality on the ground, plus or minus, even in the conditions of a good organization of the operative and accounting records, due to several causes among which we mention:

- changes made to the patrimonial elements of the unit, either as a result of natural causes (such as: drying, evaporation, weight loss, etc.), or due to subjective causes (such as: inaccurate measurements, theft of economic means);
- failure to prepare or defective preparation of some documents;
- non-registration or incorrect registration in the accounts of certain operations;
- the negligence and inattention of the managers who manage the assets and economic values.

2.1. The role of inventory is manifested in several directions, namely:

- the inventory is a means of achieving the concordance of accounting data and other forms of economic evidence with the objective reality it represents;
- constitutes a means of control and verification of the integrity of the economic means, of the good management of the patrimony in order to strengthen the economic management, On this occasion, the responsibilities and measures for the recovery of the damage caused to the patrimony are established.
- the inventory contributes to the modernization of internal resources in that it allows the identification of non-moving, unusable or degradable material values, of hard-to-sell products and goods, etc., and their capitalization.
- the finding of temporary (reversible) depreciations of goods and economic values, during the inventory, is the basis for the establishment and recording of provisions for depreciations;
- through the inventory, the size of some economic indicators included in the accounting is determined.

On this basis, the determination of unfinished production takes place, which influences the exact calculation of costs and the final results.

- the inventory is a preliminary, mandatory work, to the preparation of the annual accounting balance sheet, contributing to the realization of the faithful image of the patrimony represented by the balance sheet;

- the inventory contributes to the observance of financial discipline and to the normal development of settlements, by discovering unpaid receivables, respectively, debts not paid on time;

Based on the inventory, a series of conclusions can be obtained for improving the organization of the current accounting, the operational record of the stocks, the management control, etc.

2.2. The object of the inventory is the entire patrimony, i.e. all the assets and liabilities available to the patrimonial unit, at the time of the inventory. In accounting theory and practice, inventory is classified according to several criteria:

- From the point of view of the period when it is carried out, the inventory is:

- annual
- periodic

- From the point of view of scope, the inventory can be:

- general
- partial

- **General inventory** According to the provisions of the Accounting Law no. 82/1991, republished, and of the Order of the Minister of Finance no. 2861 of October 9, 2022 for the approval of the Norms regarding the organization and performance of the inventory of elements of the nature of assets, liabilities and equity, the general inventory is carried out: at the beginning of the activity, at least once a year, on the occasion of the end of the financial year, during its operation, in case of merger, division or termination of the activity, as well as in other situations provided by law.

- **The partial inventory is carried out in the following situations:**

- a) in case of price changes;
- b) at the request of the control bodies, on the occasion of carrying out the control or other bodies provided by law;
- c) whenever there are indications that there are shortages or surpluses in management that can only be determined with certainty through an inventory;
- d) whenever there is a handover - reception of management;
- e) on the occasion of management reorganization;
- f) as a result of natural disasters or cases of force majeure.

According to the regulations of art. 8 para. (2) from the Accounting Law, the Ministry of Finance can approve, for public institutions, exceptions to the mandatory annual inventory rule, at the justified request of the patrimonial unit, with the approval of the general directorates of public finance and county state financial control, respectively of the Bucharest municipality.

If, in the aforementioned situations, all the patrimonial elements of a management are inventoried, this can take place of an annual inventory, with the approval of the administrator, the credit orderer or the person who has the obligation to manage the patrimony. The inventory register will contain the value of the actual stocks inventoried and entered in the inventory lists (code 14-3-12, 14-3-12/a and 14-3-12/b), updated with the inflows and outflows of goods from the period between the inventory date and December 31.

- **According to the nature of the elements subject to the inventory**, the following are distinguished:

- Inventory of material and monetary means, i.e.: tangible assets, patrimonial elements of the nature of stocks (raw materials, consumables, goods), securities, availability, etc. Their verification is done by factual and quantitative verification, and in the case of availability in bank accounts, it is done on the basis of documents (account statement).

- Inventory of receivables (customers, internal and external debtors), respectively of debts (suppliers, etc.) is done on the basis of documents and scores with partner legal or natural persons. These are realized in situations where invoices or other settlement documents are entered with reference to: their number and date, the amount to be settled or paid, as the case may be, as well as the settlement terms.

- Inventory of real estate, buildings and land.

➤ **According to the role of the inventory in the practical activity of the patrimonial unit:**

- Management control inventory, which is, in fact, a form of management control over the management of material assets and monetary values.

- The inventory of delivery - receipt of the management, is a mandatory operation in the case of the establishment of a management or the change of a manager.

- The inventory as an operation preceding the preparation of the annual accounting balance of the patrimonial unit, which aims to verify the agreement between the factual reality and the data recorded in the accounting.

In carrying out the inventory, certain conditions of principle must be respected, which lead to the increase of the efficiency of the inventory, among which we mention:

- o Establishing in advance the elements subject to the inventory, the limits of its expansion on the heritage. They are established, depending on the specifics of the activity, within an inventory plan, by the head of the financial and accounting department, approved by the unit's management, and are based on the objectives pursued through the inventory of the heritage;

- o Inventory commissions must have a composition that ensures the smooth running of inventory operations. In this sense, the aspect of the professional training (economic and technical) of its members is taken into account while respecting, at the same time, the principle of incompatibility of the inventory by the manager (he is not part of the commission, but effectively participates in its realization);

- o The inventory must be carried out in the shortest possible time in such a way that it does not prevent the normal development of the economic activity, of production and sale, etc.;

- o The inventory should be carried out correctly, and in the case of material and financial means, the verification should be done by direct observation of these elements. The inventory of material values is done at the place of storage and preservation.

- o In order to avoid attempts to cover possible management shortfalls or to evade extras, the unexpected nature of this operation must be respected, keeping the date secret.

References:

1. Ecobici, N., 2010. *General accounting of public institutions in Romania*. Craiova: University Publishing House.
2. Oprean, I., 2007. *Control and financial-accounting audit*. Deva: Intelcred Publishing House.
3. Paliu-Popa, L., 2007. *Financial accounting*. Târgu Jiu: Brâncuși Academic Publishing House.
4. Văcărel, I., 2003. *Public Finances*. 4th edition. Bucharest: Didactic and Pedagogical Publishing House.

THE ROLE OF COMMUNICATION IN CHANGE MANAGEMENT WITHIN PUBLIC ADMINISTRATION

Ph.D. George Alexandru ISTRATE
“Valahia” University of Targoviste, Romania
E-mail: georgeistrate88@gmail.com

***Abstract:** In public administration, frequent changes can disrupt the performance of civil servants, and therefore effective communication is crucial in managing change and maintaining a positive work environment. Through clear and open communication, civil servants can better understand the reasons and goals of change and face new demands with more confidence and adaptability. In addition, effective communication can improve the efficiency of public administration by reducing the risk of errors and misunderstandings during the change process.*

***Keywords:** communication, change management, public administration.*

***JEL Classification:** D83, H12.*

1. Introduction

In an ever-evolving world where changes are occurring at an increasingly rapid pace, public administration is faced with significant challenges in trying to meet the needs and expectations of citizens. Confronted with technological, demographic, and socio-economic transformations, public institutions must adapt and transform to ensure a high level of quality and efficiency in the services they offer. In this context, change management represents a crucial component of the good functioning of institutions and public services, having a direct impact on their performance and citizens' satisfaction.

One of the fundamental aspects of the change management process is communication, which plays an essential role in the implementation and acceptance of changes in public administration. Effective communication facilitates the transmission of the information and knowledge necessary to understand and accept changes, supports dialogue and collaboration among various parties involved, contributes to creating a climate of trust and openness, and helps overcome barriers that may hinder the change process.

This article will explore the importance of communication in change management in public administration, examining in depth the role and functions of communication in this process, as well as the ways in which it can be optimized to support the transformation and adaptation of public institutions. Also, it will discuss communication strategies and tools that can be used at different stages of change management, as well as specific examples and case studies illustrating the role of communication in the implementation of administrative reforms and the improvement of public services. Finally, conclusions will be drawn and recommendations will be offered regarding the development of effective communication approaches in change management, contributing to the efficiency of public administration and the increase in citizen satisfaction and trust in state institutions.

2. Change Management in Public Administration

2.1. Definition and Context

Change management refers to the systematic process of planning, coordinating, and implementing changes in organizations, with the aim of improving their efficiency and effectiveness. This process involves identifying the need for change, setting goals and stages of achievement, allocating necessary resources, and evaluating the results obtained. Change management is essential for maintaining the competitiveness and adaptability of organizations in an ever-changing environment.

In public administration, change management plays an important role in ensuring the efficiency and effectiveness of institutions and public services, as well as their accountability to citizens. Changes in public administration may involve legislative reforms, administrative reorganizations, the adoption of new technologies, or the implementation of innovative policies and strategies. These changes can aim to improve transparency, reduce bureaucracy, promote citizen participation and inter-institutional collaboration, or develop sustainable solutions for social and economic problems.

Changes in public administration can be triggered by internal factors, such as the need for restructuring or improving processes, for example, to reduce costs, eliminate redundancies, and optimize resource use. These changes may include modifying organizational structures, reviewing work procedures, or training and professional development of staff.

On the other hand, changes in public administration can also be driven by external factors, such as social, economic, and technological transformations. These may include demographic changes, such as population aging or migration, changes in citizen preferences and expectations, technological advancements such as digitalization and automation, or changes at the level of national and international legislation and regulations.

In this context, change management in public administration requires an integrated and adaptable approach, considering the specific peculiarities and constraints of the public sector and involving the commitment and collaboration of all stakeholders, including employees, citizens, and external partners. Efficient and transparent communication represents a key element in this process, ensuring the understanding and acceptance of changes and facilitating adaptation and innovation in public administration.

2.2. The Importance of Change Management in Public Administration

Change management is essential in public administration for several reasons, which contribute to improving the quality and efficiency of public services and increasing citizens' trust in state institutions.

Increasing the efficiency and effectiveness of public services: Changes can contribute to optimizing resources and processes in public administration, by reducing bureaucracy, simplifying procedures, and promoting modern work practices. Implementing new technologies and information systems can facilitate citizens' access to public services, improve their quality, and reduce the response time of institutions.

Adapting to citizens' expectations and needs: In an ever-evolving society, public administration must remain relevant and adapt to changes in the external environment, such as demographic, economic, technological, or cultural transformations. Change management allows public institutions to respond proactively and flexibly to citizens' expectations and needs, ensuring that public services are user-oriented and meet quality and accessibility requirements.

Supporting sustainable development and social inclusion: Changes in public administration can contribute to promoting sustainable and equitable development, by implementing policies and measures addressing social and environmental challenges. This could involve promoting the circular economy, combating poverty and social exclusion, protecting the environment and biodiversity, or ensuring equal access to quality public services for all citizens.

Improving transparency and accountability: Change management in public administration can contribute to increasing transparency and accountability of public institutions, by implementing mechanisms for monitoring, evaluating, and reporting results, as well as by facilitating citizen participation in the decision-making and control process of authorities'

activity. This can strengthen citizens' trust in state institutions and prevent corruption and abuse of power.

Promoting innovation and collaboration: Change management in public administration can stimulate innovation and collaboration among different entities and actors involved in providing public services. This may include cooperation between different levels of public administration (local, regional, and national), collaboration between public institutions and the private sector or non-governmental organizations, and citizen involvement in the formulation and implementation of policies and public programs. Creating a conducive environment for innovation and exchange of best practices can lead to improving the quality and efficiency of public services and identifying creative solutions tailored to citizens' needs and expectations.

Increasing competitiveness and economic attractiveness: An efficient and modern public administration can contribute to a country's competitiveness and attract foreign investments. By improving the quality of infrastructure and public services, promoting a favorable business environment, and ensuring a stable and transparent legal and fiscal framework, change management in public administration can support sustainable economic development and job creation.

Improving crisis response capacity: Public administration must be capable of responding effectively and swiftly to crisis situations, such as natural disasters, pandemics, or economic and social crises. Change management in public administration may include the development of crisis management mechanisms and procedures, as well as training and preparing staff to cope with such situations. This can ensure better protection and resilience of communities and can reduce the negative impact of crises on the population and the economy.

In conclusion, change management in public administration is crucial for adapting institutions and public services to the needs and expectations of citizens, promoting sustainable and equitable development, and ensuring the efficiency and effectiveness of authorities. Through an integrated and adaptable approach to change, public administration can contribute to increasing citizen trust and satisfaction, strengthening crisis response capacity, and supporting competitiveness and economic attractiveness.

3. Communication in Change Management

3.1. Communication is an essential tool in change management, having multiple roles in this process, which help facilitate and strengthen changes in public administration

- a) *Information and knowledge transmission:* Communication allows the transmission of information and knowledge necessary to understand and accept changes. This includes presenting the objectives, benefits, and impact of changes, as well as ways to implement and monitor them. Through communication, employees and stakeholders can receive the necessary information to adapt to new conditions and contribute to the success of the change process.
- b) *Dialogue and collaboration:* Communication facilitates dialogue and collaboration among the various parties involved in the change process, such as employees, managers, and other stakeholders. By creating a climate of trust and openness, effective communication contributes to consensus building and removing barriers that may hinder the implementation of changes. This can include the exchange of ideas, feedback, and stakeholder consultation in the decision-making process, as well as coordination of efforts and resources to achieve common objectives.
- c) *Managing resistance to change:* Communication plays a significant role in managing resistance to change, which can arise due to fears, misunderstandings, or divergent

interests. By addressing the concerns and objections of affected parties, communication can contribute to reducing anxiety and increasing acceptance of changes. This may include the use of persuasive communication techniques, empathy, and negotiation, as well as providing support and resources to facilitate adaptation to new requirements and conditions.

- d) *Motivating and engaging employees*: Communication is essential to motivate and engage employees in the change process, ensuring they understand and take on their responsibilities and roles within the process. By recognizing and valuing employees' contributions, communication can encourage initiative, innovation, and the development of competencies necessary to cope with changes. Additionally, communication can contribute to creating a sense of belonging and identification with the organization's values and objectives, strengthening employee loyalty and involvement in achieving changes.
- e) *Monitoring and evaluating changes*: Communication is also important in the stages of monitoring and evaluating changes, allowing the identification of problems, obstacles, and opportunities that may arise during the implementation of changes. By communicating results, feedback, and recommendations, public administration can adjust and improve change strategies and actions, ensuring they remain relevant and effective in the current and future context.
- f) *Creating an organizational culture of change*: Effective communication can contribute to creating an organizational culture of change, where adaptation, continuous learning, and development are valued and promoted. This can include communicating the organization's vision, mission, and values, as well as developing mechanisms and channels of internal and external communication to facilitate the exchange of information, ideas, and best practices. A culture of change can encourage innovation and collaboration, as well as the development of competencies and attitudes necessary to face the challenges and opportunities in public administration.

In conclusion, communication plays an essential role in change management in public administration, facilitating the transmission of information and knowledge, dialogue and collaboration, managing resistance to change, motivating and engaging employees, monitoring and evaluating changes, as well as creating an organizational culture of change. Through effective communication, public administration can ensure the success of the change process and improve the quality and efficiency of public services for the benefit of citizens.

3.2. Communication Strategies in Change Management

To be effective in managing change, communication must be planned and adapted according to the specifics and objectives of the changes. In this regard, the following communication strategies are recommended:

- a) *Transparent communication*: This involves presenting information in a clear, coherent, and accessible way, as well as avoiding ambiguities and technical jargon. Transparent communication contributes to increasing trust and eliminating fears or resistance to changes.
- b) *Bidirectional communication*: This type of communication involves creating a dialogue between the parties involved in the change process, allowing feedback, and encouraging participation. By involving employees and other stakeholders in the decision-making process, bidirectional communication supports the acceptance and efficient implementation of changes.
- c) *Personalized communication*: This refers to adapting messages according to the interests, needs, and expectations of different target groups. Personalized

communication helps to ensure that the information is relevant and compelling for different categories of recipients.

- d) *Continuous communication*: In change management, it is important that communication be a permanent activity and not just a punctual event. Continuous communication allows the monitoring and adjustment of messages based on the evolution of the situation and the reactions of the parties involved.

4. Case Study: Implementing Administrative Reform in Public Administration

To illustrate the role of communication in change management, we will analyze the case of implementing an administrative reform in a public institution. The reform aims at restructuring departments, introducing new technologies, and modifying work procedures.

4.1. Communication Planning

In this context, communication must be planned strategically, taking into account the following aspects:

1. *Setting communication objectives*: These can include informing employees and other stakeholders about the proposed changes, explaining the benefits and impact of changes, and encouraging acceptance and involvement in the process of implementing the reform.
2. *Identifying target groups*: In this case, target groups can include the institution's employees, managers and directors, beneficiaries of public services, and other partner institutions. Each target group may have different interests and concerns, so communication must be adapted accordingly.
3. *Choosing communication channels*: These can range from formal and informal meetings, presentations, and workshops, to written communication (emails, newsletters), online communication (social networks, websites), and mass media communication (news, press releases).
4. *Drafting messages*: Messages must be clear, compelling, and tailored to the specifics of each target group. For example, for employees, messages can highlight professional development opportunities and improved working conditions, while for beneficiaries, messages can emphasize the increased quality and accessibility of public services.

4.2. Implementation and Evaluation of Communication

Throughout the implementation of the reform, communication must be monitored and adjusted according to the evolution of the situation and the feedback received. Therefore, the following actions may be considered:

- *Creating a feedback system*: This could include opinion polls, evaluation meetings, or other tools for collecting employees' and other stakeholders' opinions and suggestions.
- *Adjusting messages and communication channels*: Depending on the evaluation results, communication can be modified to address concerns or resistance to change and highlight the positive aspects of the reform.
- *Communicating successes and challenges*: During the implementation process, it is important to communicate the progress made, as well as difficulties and lessons learned. This helps maintain motivation and trust in the change process.

5. Conclusion

In public administration, change management represents a complex and challenging process that requires the active involvement and support of employees and other stakeholders. Communication plays an essential role in this process, facilitating the transmission of information, consensus building, and efficient implementation of changes.

Through strategic planning, adaptation to the specifics of each situation, and continuous monitoring, communication can contribute to improving performance and the quality of public services, while ensuring better adaptation of the administration to the requirements and expectations of citizens.

As public administration faces increasingly complex and rapid changes, the importance of communication in change management becomes increasingly apparent. Public institutions need to pay more attention to communication and develop efficient strategies to ensure better understanding and acceptance of proposed changes. Thus, public administration will fulfill its role in the service of citizens and will adequately respond to the social, economic, and technological challenges of the 21st century.

Through effective and transparent communication, public administration can gain the trust of citizens and employees, which facilitates the implementation of necessary changes. This approach involves close collaboration between different levels of administration and a systematic and coherent approach to change management.

In conclusion, communication is a fundamental pillar in the change management of public administration and can significantly contribute to the success of reforms and the improvement of public institutions' performance. By adopting appropriate communication strategies and involving all stakeholders, public administration can face current and future challenges and ensure a high level of quality and efficiency in serving citizens.

References:

1. Adair, J., 2009. *Effective Communication: The Most Important Management Skill of All*. London: Pan Macmillan.
2. Anderson, D.L. and Anderson, L.A., 2010. *Beyond Change Management: How to Achieve Breakthrough Results Through Conscious Change Leadership*. New York: John Wiley & Sons.
3. Bălan, O. and Popa, I., 2014. *Managementul schimbării în administrația publică: Studii de caz în România*. Bucharest: Universitara.
4. Bentea, C., 2012. *Comunicarea în administrația publică: Fundamente și aplicații*. Iasi: Polirom.
5. Bridges, W., 2009. *Managing Transitions: Making the Most of Change*. New York: Da Capo Lifelong Books.
6. Carnall, C.A., 2007. *Managing Change in Organizations*. London: Pearson Education.
7. Ciobanu, G. and Stănculescu, E., 2016. *Strategii de schimbare organizațională în administrația publică*. Bucharest: Eikon.
8. Constantin, M., 2013. *Managementul schimbării în administrația publică românească: Provocări și perspective*. Bucharest: Tritonic.
9. Franc, I.V., Popescu, C., Ristea, A.-L., 2020. *Metodică în cercetarea științifică*. Bucharest: Expert.
10. Heath, C. and Heath, D., 2010. *Switch: How to Change Things When Change Is Hard*. New York: Crown Business.
11. Hiatt, J., 2006. *ADKAR: A Model for Change in Business, Government, and Our Community*. Prosci Learning Center Publications.
12. Kübler-Ross, E. And Kessler, D., 2005. *On Grief and Grieving: Finding the Meaning of Grief Through the Five Stages of Loss*. New York: Scribner.
13. Lewin, K., 1951. *Field Theory in Social Science: Selected Theoretical Papers*. New York: Harper & Brothers.

14. Minculete, G. and Olar, P., 2015. *Transformarea organizațională în administrația publică românească: Abordări teoretice și practice*. Bucharest: Academia Oamenilor de Știință.
15. Senge, P.M., 2006. *The Fifth Discipline: The Art & Practice of The Learning Organization*. New York: Doubleday.
16. Ștefănescu, C., 2011. *Reforma administrației publice și managementul schimbării: O perspectivă românească*. Bucharest: Universitară.

BANKING MARKET TURBULENCE IN MARCH 2023

Professor Ph.D., Marius GUST

"Constantin Brancoveanu" University of Pitesti, Romania

E-mail: mariusgust@yahoo.com

Abstract: *At the end of the first half of March 2023, the most important banking markets in developed countries began to show signs of crisis, with stock markets falling, three banks in the United States and one in Europe were declared bankrupt, and others from roughly the same geographical areas were saved. The fear of a new crisis, this time of a banking nature, and of a global contagion made the banking authorities, government representatives or important bankers react quickly, making available to financial intermediaries important funds, but also with statements to calm the markets. This communication addresses three issues. The first refers to the term crisis that the press, as well as specialists, have used to name these turbulences on the banking markets. The second problem addressed in the communication concerns the causes of the turbulences, and the third problem analyze the particularities of these turbulences, in relation to the banking crises of the recent past.*

Keywords: *crisis, banks, turbulence, credit.*

JEL classification: *G21.*

1. About banking crises

Financial crises are generally regarded as credit booms gone badly (Schularick, Taylor, 2012). Banking crises generated by credit booms are those that are preceded by a period of sustained above-average growth in private credit - especially bank credit - and a subsequent collapse of the boom. The idea is not new, and is also found in the work of Minsky (2011) and Kindleberger&Aliber (2015). However, from the above delineation we note that these are financial crises and not banking crises, even if their origin is credit. Other authors also deal with banking crises, especially in the literature after the 2007-2008 crisis: Reinhart & Rogoff (2009), Caprio&Klingebiel (1996), C. Romer & D. Romer (2015), Boyd, De Nicolò & Loukoianova (2009). However, in most of the mentioned works, banking crises are not totally separated from financial crises and some of the works deal with the causes of banking crises.

Matthew Baron, Daniel Dieckelmann (2022) are of the opinion that the previous definition needs to be qualified because a large number of banking crises are not caused by large increases in credit. Thus, from an analysis of the data on banking crises, Baron, Dieckelmann find that "*the share of banking crises caused by real sector shocks, such as natural disasters, wars and recessions, has declined significantly over time, making the financial sector the main origin of banking crises today*". However, only "*35% of all banking crises - and 40% of those with large-scale bank failures - are credit process booms*" and that "*an increasing share of banking crises are the result of international contagion*". Specifically, the causes of banking crises identified by Matthew Baron, Daniel Dieckelmann are due to:

- strong domestic credit growth;
- strong increases in asset prices (financial securities, real estate prices, commodity exchange prices);
- commodity market crises;
- currency or gold crises;
- financial crises (generated by public finances, exchange rate depreciation or private or banking financial flows);
- wars;
- natural disasters;
- political crises;

- other causes (structure of the banking system, bank management, internal recessions, consumer price instability).

An interesting observation by Baron & Dieckelmann is that many of the banking crises tend to cluster, with analyses resulting in globally or regionally clustered crisis periods that often originate from a financial centre, and that "*about a quarter of all banking crises in the sample [...] are due to contagion and financial interconnectedness and can occur regardless of macroeconomic or financial conditions in the domestic economy*". We also note Baron&Dieckelmann's conclusion that due to the accumulated resilience of banking systems around the world "*banking crises will not occur on a large scale*".

Interesting observations can also be found in the analysis of the causes of banking crises by Pereira, Ramalho & da Silva (2018). Thus, the aforementioned authors find evidence that (a) bank debt (without deposits) has positive effects on the probability of failure; (b) customer deposits are not a relevant factor and have a negative influence on bank crises; (c) there is a higher probability of bank crises for countries where banks are on average more leveraged; (d) partial support for the hypothesis that a higher share of customer deposits in total debt mitigates the probability of failure by providing a buffer against failure; (e) bank size is also a significant variable in explaining bank crises, having a negative influence on the probability of bank crisis (in the sense that countries where banks are, on average, larger have a lower probability of failure; (f) economic growth is negatively related to the probability of bank crisis, suggesting that many crises are more likely in a weak macroeconomic environment; (g) the inflation rate is an important determinant of banking crisis, positively affecting the probability of a banking crisis; (h) GDP per capita is irrelevant in explaining a banking crisis (in other words, "*the results of the analysis highlight the role of economic growth on countries' financial stability; if economic growth slows, non-performing loans increase, some savers will withdraw their savings to meet financial needs, and bank liquidity decreases, but in times of economic growth the probability of these occurrences is lower, mitigating the possibility of failure*"); (i) there is strong evidence of contagion between OECD countries, whether between those in the same region or induced by G7 countries, but the contagion effect between countries in different regions does not seem to be particularly relevant.

Closer to the delineation of a banking crisis is Demirgüç-Kunt and Detragiache (2002), who consider a systemic banking crisis to be a "*...situation in which significant segments of the banking sector become insolvent or illiquid and cannot continue to operate without special assistance from monetary or supervisory authorities*".

A clearer answer to the question of what is a banking crisis is found in Luc Laeven, Fabian Valencia (2018) who define a banking crisis as an event that meets two conditions:

1) Significant signs of financial distress in the banking system, through significant withdrawals of bank deposits, losses in the banking system and/or bank liquidations;

2) Significant intervention measures in banking policy in response to significant losses in the banking system.

It considers that in the first year in which both criteria are met, the crises become systemic, affecting the entire banking system, and if banking sector losses and/or bank liquidations are large, then the first condition is sufficient for the banking crisis to be a systemic one. The same source also proposes some quantitative measures for the variables that operationalise the crisis. Thus, "*losses are severe when either (i) a country's banking system shows significant losses that result in a share of non-performing loans exceeding 20% of total loans or the closure of banks with at least 20% of the banking system's assets or (ii) the fiscal restructuring costs of the banking sector are sufficiently large, exceeding 5% of GDP*". The authors note that defining the crisis solely on the basis of the first condition is not

a safe solution, because it is "difficult to quantify the degree of financial distress in a banking system, especially in low- and middle-income countries, and also because losses can be mitigated by policy responses", and to overcome the problem we use the second condition, "considering that policy interventions in the banking sector are significant if at least three of the following six measures have been used": 1) the introduction of restrictions on bank deposit withdrawals and/or the declaration of public holidays (days on which banks are closed); 2) government takeovers of systemically important financial institutions, including cases where the government takes a majority stake in such significant financial institutions; 3) fiscal costs of bank restructuring amounting to at least 3 percent of GDP (such as recapitalization costs); 4) liquidity provided to banks by monetary authorities or directly by the Treasury is significant, of at least 5 percent of deposits and liabilities owed to non-residents; 5) significant government guarantees are provided to banks (full liability protection by the government or government guarantees are extended to other non-deposit liabilities of banks); and 6) significant purchases of bank assets, of at least 5 percent of GDP.

2. Preconditions for the banking turmoil in March 2023

I. Commercial banks traditionally invest a large part of their resources in securities listed on capital markets. Among the securities in which banks invest their resources, government securities, such as bonds or treasury bills, are preferred because they bring them returns, have minimal risks and are a potential liquidity reserve for when customers demand more cash than the bank has in its treasury. Also, when banks calculate their liquidity and solvency, investments in government-issued securities have low or even zero provisioning ratios. In addition, government securities held in banks' portfolios are frequently used by banks as collateral for borrowing from the central bank or other banks or for participation in interbank payment facilities.

The problem is that during 2022, in order to combat the global inflationary crisis, central banks have started to raise benchmark interest rates (Table 1). And the increases for one year have been explosive: for the US more than 30 times, and for the European Union 15 times.

Table 1. Evolution of central bank interest rates (%)

Column title	Ian 2021	Jul 2021	Ian 2022	Jul 2022	Ian 2023	Apr 2023	May 2023
USA - interest rate on federal funds (FED)	0,1	0,15	0,15	1,65	4,4	4,9	5,15
EU - marginal lending rate - ECB	0,25	0,25	0,25	0,75	2,75	3,75	4.00

Source: www.ecb.eu, www.federalreserve.gov

The rise in interest rates, during the 2021-2023 inflation hike, with which central banks were borrowing their funds did not remain without consequences for domestic financial markets, where most interest rates on securities, including new government-issued securities, rose. This caused bonds issued in the previous period, including government bonds, when interest rates were low, to fall sharply in value, reducing the value of the holders' portfolios, including banks, and in the event of their sale, causing losses for the sellers. It should be noted that the loss arises only in the case of selling government securities issued during the period of low interest rates and not in the case of holding these securities to maturity. When these losses are unrealised, this does not cause the bank to cease trading, as the bank will receive full payment under the original terms of the bond. However, if it is forced to sell these securities at a price below the current market price, losses on these types of assets become realised, meaning significant risks for the bank, and even implying that it may not be operational in the future.

II. After the financial crisis of 2007-2008, regulators of these markets and authorities adopted a series of new rules to avoid future crises. The rules, known as Basel III, aimed to ensure that banks had adequate capital, correlated to assets, and liquidity. Although the application of the rules or parts of them have been delayed (including by the COVID-19 pandemic), they have nevertheless been much better applied in Europe than in the US. Thus, according to François Villeroy de Galhau (Hotnews, 2023), governor of the Bank of France, 400 European banks comply with Basel III rules, compared with just 13 in the US. That's because under President Donald Trump, the Economic Growth, Regulatory Relief and Consumer Protection Act 174/2018 was passed, exempting small and medium-sized US banks from Basel III rules. Stricter prudential requirements for banks had been enacted by the Dodd-Frank Act (Dodd-Frank Wall Street Reform and Consumer Protection Act) on July 21, 2010, under President Barack Obama, which reorganized the financial regulatory system, eliminating the Office of Thrift Supervision, assigning new responsibilities to existing agencies such as the Federal Deposit Insurance Corporation, and creating new agencies, such as the Consumer Financial Protection Bureau - charged with protecting consumers from abuses of credit cards, mortgages and other financial products, the Financial Stability Oversight Council and the Office of Financial Research to identify threats to the financial stability of the United States.

Specifically, under the 2018 US deregulation law, the eligibility threshold for Basel III rules based on total bank assets was raised from \$50 billion to \$250 billion. Of note, some banking experts said Silicon Valley Bank and Signature Bank would have managed their risks better if the regulatory law had not been changed. Additionally, it should be added that SVB CEO Greg Becker explicitly lobbied for passage of the Dodd-Frank Act amendment because of the frequency and number of stress test scenarios required, implemented under the Dodd-Frank Reform and Consumer Protection Act, for banks with assets under \$250 billion. Other experts, however, believe this is incorrect, because Silicon Valley Bank, was required under the new law to undergo regular periodic stress tests, and the Federal Reserve Bank of San Francisco, under whose authority SVB was located, had the discretion to annually examine any bank with assets over \$100bn.

III. Several banks also gained from exposure to the cryptocurrency market and business with cryptocurrency-related firms before and during the COVID-19 pandemic, but which, after the bursting of the bubble in 2020-2022, began to negatively affect those banks starting in late 2022.

3. Timeline of the banking turmoil since March 2023

Between 8 and 12 March 2023, i.e. in just five days, the international financial markets and public opinion thought that a new banking crisis had begun, similar to the one in 2007-2008.

Three small and mid-sized US banks failed, triggering a sharp drop in global bank share prices and a swift response from regulators to prevent potential global contagion. The three failed banks that heated up the markets were Silvergate Bank, Signature Bank, both with significant exposure to cryptocurrency markets, and Silicon Valley Bank, which faced a run on bank deposits triggered by concerns from wealthy depositors with balances in excess of \$250,000 (the deposit cap insured by the Federal Deposit Insurance Corporation-FDIC) about the bank's liquidity after it sold its Treasury bond portfolio at a large loss. Secondary players were Credit Suisse, Deutsche Bank in Europe and First Republic Bank and PacWest Bank in the United States. The collapses of Silicon Valley Bank and Signature Bank are believed to be the second and third largest bank failures, respectively, in recent US financial history, but smaller than the collapse of Washington Mutual Bank during the 2007-2008 financial crisis.

Chronologically and briefly, the events were as follows:

1. **The collapse of Silvergate Bank** (wikipedia.org, 2023), a bank with assets of \$15 billion in 2022Q3. On March 8, 2023, facing continued losses from mark-to-market sales of securities in which it had made investments, Silvergate Bank issued a public notice, requesting voluntary liquidation and promising to return all funds on deposit to owners. Silvergate Bank was a California-based bank that began operations in 1988 as a savings and loan association. Starting in 2010, the bank began offering banking services to cryptocurrency market players, and in 2014, the bank sought regulatory approval to do business with cryptocurrency firms. As a result of this refocus, servicing cryptocurrency exchanges and other companies that were involved in the cryptocurrency business, the bank's assets reached \$1.9 billion in fiscal year 2017, but as a size, the bank remained a small one, with only three branches in 2018 (wikipedia.org, 2023). The same source notes that by the end of 2022, 90% of the bank's deposits related to cryptocurrency businesses or cryptocurrency firms exceeded \$1 billion. At the same time, Silvergate Bank also owned a real-time transaction settlement system, the Silvergate Exchange Network, which allowed a customer to send payments in US dollars from their Silvergate Bank accounts to those of another of the bank's customers without requiring an interbank wire transfer. The relatively fast settlement of transactions made through the Silvergate network has led a large number of cryptocurrency companies to open accounts at the bank to take advantage of the short transfer times. Although, much of the activity was in the cryptocurrency market, Silvergate Bank's placements had a relatively conservative profile, holding mortgage-backed securities as well as medium- and long-term bonds issued by US government or municipal agencies, which while having minimal default risk, had associated interest rate risks (see comment I).

Silvergate is a victim of not just the March 2023 turmoil, having been hit as early as November 2022, when it bankrupted cryptocurrency exchange platform FTX, and the bank's customers demanded deposit withdrawals, and because it did not have sufficient liquidity it had to sell assets, recording losses of over \$0.7bn in Q4 2022 alone. However, at the end of 2022, Silvergate declared itself solvent, reporting cash and cash-like assets of \$4.6 billion, liquid securities assets of \$5.6 billion and deposit liabilities of \$3.8 billion. In the following months, the first few months of 2023, Silvergate continued to incur losses from securities sales and borrowed \$3.6 billion (Wallerstein, 2023). Other sources (Saini, Nishant & Lang, 2023) say that total deposits from Silvergate's crypto asset customers fell to \$3.8 billion at the end of December, compared to \$11.9 billion as of the end of September 2022, that the bank sold \$5.2 billion worth of debt securities at a loss of \$718 million in the fourth quarter to maintain its liquidity.

2. **The failure of Silicon Valley Bank (SVB)**, a bank with assets of \$211 billion in 2022 (wikipedia.org, 2023). On 10 March 2023, after several tense days, the California Department of Financial Protection and Innovation (DFPI) declared SVB bankrupt and placed it under receivership by the Federal Deposit Insurance Corporation (FDIC), the US agency in charge of guaranteeing deposits, marking the collapse of the 16th largest bank in the United States. Silicon Valley Bank (SVB) was a commercial bank founded in 1983, headquartered in Santa Clara, California. SVB served companies or individuals in the technology industry. Companies such as Airbnb, Cisco, Fitbit, Pinterest, and Block, Inc. were clients of the bank. About half of the U.S. healthcare and technology companies were funded by SVB. SVB was also known for its private banking services, lines of credit for individuals or mortgages for tech entrepreneurs. When it took over the bank, the FDIC announced that SVB had \$209 billion in assets at the end of 2022.

Table 2. Evolution of Silicon Valley Bank assets (billion USD)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Actives	6,1	6,7	10,0	12,6	17,5	20,0	22,8	26,4	39,3	44,7	44,7	51,2	56,9	71,0	115,5	211,3	211,8
Warehouses	4,1	4,6	7,5	10,3	14,3	16,7	19,2	22,5	34,3	39,1	39,0	44,3	49,3	61,8	102,0	189,2	173,1
Non-interest-bearing deposits	3,0	3,2	4,4	6,3	9,0	11,9	13,9	15,9	24,6	30,9	32,0	36,7	39,1	40,8	66,5	125,9	80,8
Equity capital	0,6	0,7	1,0	1,1	1,3	1,6	1,8	2,0	2,8	3,2	3,6	4,2	5,1	6,5	8,2	16,2	16,0
Income	0,5	0,7	0,6	0,5	0,7	0,9	1,0	1,4	1,5	1,5	1,7	2,0	2,7	3,5	4,1	6,0	7,4
Net profit	0,1	0,1	0,1	0,0	0,1	0,2	0,2	0,2	0,3	0,3	0,4	0,5	1,0	1,1	1,2	1,8	1,5

Source: https://en.wikipedia.org/wiki/Silicon_Valley_Bank

Table 2 shows that Silicon Valley Bank saw an increase in its deposits during the COVID-19 pandemic, when the tech sector experienced significant growth. To leverage its large deposits, starting in 2021, it began buying long-term US Treasury bonds. But starting in 2022, as the Federal Reserve System gradually raised interest rates to stem rising inflation, the market value of bonds issued in previous years fell, with holders selling them to buy new, higher-interest securities. This affected those holders who kept the old bonds, because the value of their bond portfolios was falling. Concurrent with the decline in the current value of bonds issued prior to 2022, rising interest rates also drove up borrowing costs across the U.S. economy, causing many U.S. bank depositors, including Silicon Valley Bank customers, to withdraw money to meet their liquidity needs. SVB, faced with heavy demands for deposit withdrawals, on March 8 announced it had borrowed \$15 billion, sold more than \$21 billion worth of securities and was preparing for an emergency sale of treasury bills to raise another \$2.25 billion. But the announcement, rather than allaying depositors' fears, which were compounded by warnings from major Silicon Valley investors, rather triggered the biggest banking panic since the 2007-2008 financial crisis and caused a massive run on bank deposits, with customers withdrawing \$42 billion in funds in the night that followed. The banking panic was amplified by social media, on which management's announcements that it had liquidity to repay deposits quickly went viral and were misunderstood (that the bank had no liquidity and was merely trying to calm the markets). Deposit flight has been facilitated by the new remote banking channels (mobile banking, internet banking) whereby customer migration is quick, queue-free and operational even outside of physical counter hours. Another factor contributing to the panic and deposit withdrawals was the fact that about 89 percent of SVB's \$172 billion in deposits exceeded the FDIC-insured maximum of \$250,000, so they were certain to be lost in the event of bankruptcy. To appease depositors and the markets, on March 14, the FDIC received an exceptional authorization from the US Treasury and announced that all depositors would have full access to their funds starting the next morning. At the same time, the FDIC, in order to be able to quickly honour depositors' withdrawal requests, opened a new bridge bank, Silicon Valley Bridge Bank, after holding a tender for the assets of Silicon Valley Bank that attracted only one bid, which was rejected by the originator (PNC Financial Services and RBC Bank, which had originally submitted a takeover bid, withdrew their bids). The story ended on March 26, 2023, when the FDIC announced that First Citizens BancShares would acquire SVB's commercial banking business. Thus, First Citizens took over about \$56.5 billion of SVB's deposits and \$72 billion of SVB's loans, while about \$90 billion of SVB's investments remained in receivership, and SVB's 17 branches reopened, on March 27, 2023, under the First Citizens brand the next day, with SVB depositors becoming First Citizens customers. Subsequently, First Citizens, also took over SVB's Private Banking division.

3. **Signature Bank bankruptcy**, a bank with assets of \$110 billion in 2022 (wikipedia.org, 2023). On March 12, 2023, the third bankruptcy occurred, Signature Bank, which was closed by regulators at the New York State Department of Financial Services and

placed in receivership by the FDIC, which immediately established a bridge bank, Signature Bridge Bank, to take over the healthy assets of the failed bank. Signature Bank was a New York City-based second-tier (state) bank, established in 2001 as a subsidiary of an Israeli bank, Bank Hapoalim, specializing in lending to small businesses in New York City and adjacent areas, as well as to individuals, providing loans to multifamily homeowners in the New York area (statistics, note that as of 2019, about 40% of the bank's loans - \$15.8 billion out of a total of \$38.9 billion went to multifamily homeowners). In order to reduce its reliance on real estate lending, Signature Bank has started to move into the crypto area since 2018. As this niche was fairly rarely addressed by banks, deposits held at the bank grew from \$36.3 billion at the end of fiscal year 2018 to \$104 billion by August 2022, about 25% of which were from companies operating in the cryptocurrency space, with Signature Bank becoming the second largest provider of banking services to the cryptocurrency industry after Silvergate Bank. At the same time, Signature Bank organised a payment network, Signet, for crypto customers, which opened in 2019 and allowed real-time gross settlement of funds transfers via blockchain without intermediaries and fees. The same source notes that by the end of 2020, 740 Signature Bank customers were using Signet, and in the following years the network continued to expand, integrating TrueUSD in 2021 or cryptocurrency intermediary Coinbase in 2022. The services offered by Signature Bank in this niche market and, in particular, the possibility offered to cryptocurrency companies to use the bank's services, gave legitimacy and credibility to the sector and stimulated its growth and the orientation of part of the public towards cryptocurrency grey area operations. This is best seen in the value of one share of the bank, which has risen from \$75 to \$375 per share in one year and has made Signature Bank a "cryptobank" in the eyes of the public, with fluctuations in the crypto market also impacting the bank. So the price declines of cryptocurrencies throughout 2022, as well as the bankruptcy of crypto intermediary FTX in November 2022, caused many Signature Bank customers to withdraw from their deposits (the source cited, indicates a significant run on deposits, with deposits falling from \$106.1 billion in early 2022 to \$88.6 billion in late 2022). At the same time, some of the bank's traditional non-crypto customers, such as private bankers, as yields in other financial areas began to rise due to rising interest rates, began to withdraw their deposits for better placements. In addition, Signature Bank's image wasn't looking good either. In addition to its association with the crypto market, the U.S. Department of Justice and the U.S. Securities and Exchange Commission (SEC) were investigating Signature Bank for potential money laundering related to cryptocurrency trading. In 2018, an article appeared in The New York Times about Signature Bank, which was considered a "home bank" for the Trump family, it funded Trump's golf course in Florida, and Trump's daughter Ivanka Trump was on Signature Bank's board of directors. Signature Bank also provided financial support for the re-election of a number of U.S. Senators for their support of the Economic Growth, Regulatory Relief and Consumer Protection Act.

The bank proved unable to close a deal to consolidate its finances on March 10-11, 2023 and to honour the avalanche of requests to withdraw deposits placed that weekend by customers. The same source speaks of the bank *"losing deposits so quickly that it was forced to ask for money twice from the Federal Home Loan Bank of New York in 90 minutes."* Government agencies viewed the bank's collapse as a systemic risk to the financial system, taking extraordinary measures to ensure the availability of funds beyond the FDIC-insured limit of \$250,000, because by December 2022, 90% of Signature Bank's total deposits attracted of \$89 billion exceeded the FDIC-insured maximum. New York state officials wanted to take over the institution on Friday, March 10, and have been pressuring the Treasury Department, Federal Reserve and FDIC to let them take control of the bank. On

March 19, the FDIC announced that certain deposits and loans and the 40 branches of Signature Bridge Bank had been taken over by New York Community Bancorp. The sale did not include about \$60 billion in loans, which remained in receivership.

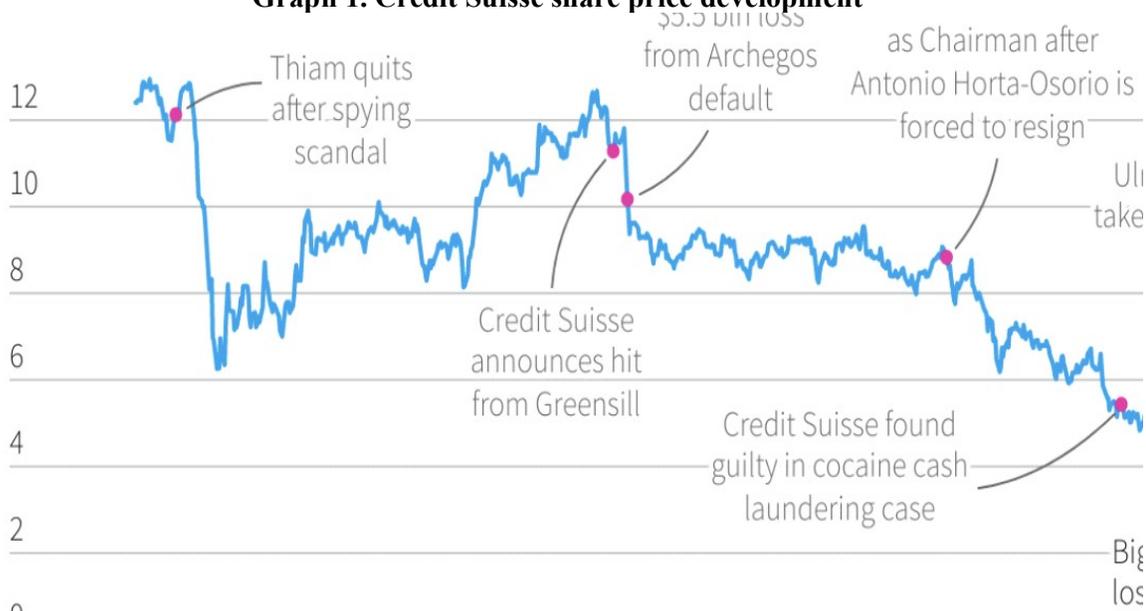
4. US regulators' response. In response to US bank failures (wikipedia.org, 2023), US regulators have announced extraordinary measures to ensure that all deposit withdrawal requests will be honoured. Thus, on 12 March, the Federal Reserve created a bank funding programme offering loans of up to one year to eligible depository institutions (banks, savings associations, credit unions and other depository institutions) against collateral consisting of eligible assets (US Treasury securities, securities issued by US government agencies, or mortgage-backed securities, with these securities being valued at face value rather than the lower current market value affected by interest rate increases starting in 2022). The Federal Reserve has also relaxed access to its lending window, and the Treasury Department has made \$25 billion available to the bank financing program. Additionally, the facility through which the Fed provides liquidity to banks has been accessed by a significant number of banks, with \$153 billion in loans (Cox, 2023).

At the same time, banking market regulators seem to be moving very quickly to implement measures to prevent such crises in the future. For example, the Federal Reserve has begun looking at introducing higher capital and liquidity requirements for credit institutions with assets between \$100 billion and \$250 billion. Moreover, the issue of regional banks in the US, under the supervision of state rather than federal agencies, has raised concerns about regional banks growing too quickly. Last but not least, the March 2023 banking crisis triggered a series of investigations by the U.S. Department of Justice and the U.S. Securities and Exchange Commission (SEC), the U.S. capital markets watchdog, into the Silicon Valley Bank executives' stock sales and the accuracy of the bank's published risk disclosures.

5. Interventions by US credit institutions. Also, during the banking panic of March 2023, commercial banks themselves stepped in to help those credit institutions that had liquidity problems. Thus, during the panic, between 8-12 March and after mid-March, there were significant interbank flows of funds to support the troubled banks. This appears to be a new feature for commercial bank behaviour during a crisis. Typically, in past banking crises, commercial banks avoided lending to those banks with liquidity problems to avoid potential losses in the event of the failure of the borrowing bank, but also to avoid contagion (rumours and declining public confidence if news of one bank's exposure to another in trouble reached the public, fuelling panic, increased demands for deposit withdrawals, and ultimately a run on deposits). On the contrary, since the financial crisis of 2007, but especially during the current crisis, banks panicked by widespread contagion are stepping in to support troubled banks by lending to them or opening up deposits, in a word providing them with liquidity, precisely to calm the markets, boost depositor confidence and ensure that stressed banks have the liquidity to meet deposit withdrawal requests.

6. The international impact of the crisis has been relatively modest. The main effects were the liquidation of a Swiss bank, Credit Suisse, the quasi-general fall in share prices of some banks and, to prevent international contamination of banks, industry regulators such as the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank stepped in to provide liquidity to commercial banks.

Graph 1. Credit Suisse share price development



Source: Noele Illien, Oliver Hirt, Credit Suisse warns of more losses, drawing regulatory attention, 9.02.2023, www.reuters.com, <https://www.reuters.com/business/finance/credit-suisse-logs-worst-annual-loss-since-global-financial-crisis-2023-02-09>, (accessed 16 April 2023)

7. Credit Suisse collapse. On 19 March, Swiss bank UBS Group AG bought its smaller competitor Credit Suisse in an emergency arrangement brokered by the Swiss government. This was the most significant international event beyond US borders, partly caused by the US banking panic and heightening concerns about an international banking crisis. Yet the US panic only partly caused the closure of Credit Suisse. As early as February, i.e. some time before the US banking crisis, Credit Suisse had announced significant losses in 2022 (CHF 7.3 billion) due to deposit withdrawals. Illien, N., Hirt, O., (2023), note that these reached CHF 110 billion (\$120 billion) in the fourth quarter of 2022, and the consequence was that the wave of outflows and the fall in the bank's share price continued during the first quarter of 2023, continuing the trend of the past two years.

Subsequently, on 14 March 2023, the bank's report noted significant deficiencies in financial reporting. The ominous information for the bank continued. On March 15, Saudi National Bank, Credit Suisse's largest shareholder, announced that it would not provide additional financial support, news that fuelled a further drop in the bank's shares. To halt the collapse, in the following days Credit Suisse attempted to take out a CHF 50 billion loan from the Swiss National Bank, then began buying back its own shares worth CHF 3 billion and selling assets (the Baur en Ville hotel in Zurich). But all this did nothing to improve investor and depositor confidence, with reports (wikipedia.org, 2023) of outflows of more than CHF 10 billion during that week and almost \$69 billion (CHF 61 billion) in the first quarter of 2023. The Credit Suisse situation became so critical, and the problems could have spread to other banks, that the Swiss government and the Swiss National Bank almost forced UBS (Union Bank of Switzerland) to buy all Credit Suisse shares for \$3.25 billion (CHF 3 billion). In post-factum analyses of the Credit Suisse collapse the fan of causes included US bank failures (as former bank chairman Axel Lehmann saw it), years of multi-billion dollar losses, scandals and its poor business strategy. It should also be noted that some analysts also

put the collapse of Credit Suisse on the economic sanctions imposed by Switzerland on Russian individuals and businesses as the bank held about \$33 billion in resources from Russian clients (wikipedia.org, 2023).

8. Effects of the US banking panic of March 2023 on the banking industry in other countries. Among the effects of the US banking panic of March 2023 on the banking industry in other countries, the most relevant was the fall in bank share prices, caused by investors' fear of possible losses, which in fact means a fall in bank equity financing. For example:

- In Japan, the share values of the three major lenders, Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group and Mizuho Financial Group, lost between 10% and 12% due to market turmoil and their exposure to the bond market, and the Topix index calculated for listed Japanese banks fell 17%;

- The 5-year CDS (cost of default insurance) price for Deutsche Bank debt rose 70% on Friday, March 24, 2023, and Deutsche Bank shares fell more than 14% at one point, ending the day with a loss of about 8%;

- The UK banking index also fell by around 3%, following falls of around 6% for both Barclays and Standard Chartered and 4% for NatWest;

- Shares of some of Europe's leading banks, such as Commerzbank, Raiffeisen Bank and Société Générale also fell;

- Chinese banks have seen little negative impact, Bloomberg News, noting that the best performing banks during the banking market crisis were in China (wikipedia.org, 2023).

9. Possible international contagion. Another international effect of the US banking panic in March 2023 was the intervention of central banks in the markets to provide commercial banks with liquidity to prevent international contagion. Thus, the regulators that intervened or announced their intention to intervene to help commercial banks through any difficult times were the US Federal Reserve, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank. One issue that arose for central banks during the banking panic, struggling with widespread inflation, was whether to continue interest rate hike programmes, the main anti-inflationary weapon, or to pause interest rate hike programmes. The response was mixed, some, like the Central Bank of Japan, after a crisis meeting, decided to postpone the process, while the European Central Bank and other European central banks raised interest rates in the very same tense days of March 2023. Interest rate hike postponements have also been seen in the Central Bank of India, the Central Banks of Australia, Canada and Indonesia (wikipedia.org, 2023). It should also be recalled that in the European Union, finance ministers in the euro area have called on the European Commission to close loopholes in the provision of liquidity during crises and the insurance of bank deposits, a measure somewhat similar to that adopted in the US during the crisis, when the US authorities insured deposits beyond the legislative limit of \$250 thousand and set up an emergency liquidity provision program for credit institutions.

10. Subsequent reverberations of the banking panic. After the March 2023 panic, shares of several US regional banks fell and depositors continued to move their deposits to larger banks. Problems were experienced by the following: First Republic, closed on May 1, Western Alliance Bancorporation, its share price down 47%, PacWest Bancorp, with a 21% lower share price, First Horizon, Metropolitan Bank and Western Alliance, and Moody's lowered credit ratings for several regional banks (Western Alliance, First Republic, Intrust Bank, Comerica, UMB Financial Corporation and Zions Bancorporation).

Against the backdrop of a relatively calm April 2023, on May 1, 2023 the US banking industry faced another collapse: First Republic Bank (FRB), a bank with assets worth \$212 billion, collapsed on May 1, 2023. FRB's collapse began earlier, but visibly was on April 28,

when First Republic Bank announced its intention to sell, at a loss, some of the bonds and securities it held to raise liquidity. That same day, the FDIC announced that it was considering taking over the bank, which caused First Republic Bank's stock price to drop 43% to just \$3.50. After falling another 42% in after-market trading, the FDIC confirmed the bank's takeover. The cumulative collapse in First Republic Bank's share price in 2023 was 97%. The next day, on April 29, the FDIC asked banks such as JPMorgan Chase, PNC and Bank of America to submit bids for the takeover of First Republic Bank by April 30, and on the morning of May 1, 2023, the California Department of Financial Protection and Innovation announced that FRB had been closed and its assets sold to JPMorgan for \$10.6 billion (wikipedia.org, 2023). These were the final elements of the collapse, because the problems had arisen somewhat earlier, during the March 2023 banking panic, when two agencies, Fitch Ratings and S&P Global Ratings, downgraded First Republic's credit rating, the source indicated above citing as the reason for the two rating agencies' decision "*a large proportion of uninsured deposits*" for which there was a high probability of being withdrawn, a loan-to-deposit ratio of 111%, i.e. loans made by the bank exceeded deposits attracted. On March 16, 2023, 11 US banks, including JPMorgan Chase, Bank of America, Wells Fargo, Citigroup and Truist Financial, deposited \$30 billion with the FRB to increase depositor confidence and avoid a run on deposits, as well as for the bank to cope with potential deposit withdrawal demands. Despite the money, investor confidence remained shaken and the bank's share price continued to fall. Three days later, on March 19, S&P downgraded its rating again, citing pessimism that the bank's problems could be remedied, according to the source quoted above. Ensign (2023) cited by the previous source, notes that FRB, had lost \$104.5 billion in deposits during the crisis, a run caused by bank customers who had deposits of more than \$250,000, unsecured by the FDIC. The bank's lack of liquidity was due to the fact that many of the bank's long-term investments were in municipal bonds, the price of which was falling (due to rising interest rates in the US market), and also because they could not be converted into cash through the long-term funding programme (an emergency bank lending programme initiated by the US authorities after the collapse of SVB) because they did not qualify as eligible collateral.

In May, the problems continued and for:

- PacWest Bank, with assets of \$40 billion in 2021, whose shares fell sharply on May 3 after the bank announced it was considering a sale, and on May 4, trading in the stock was suspended as share prices continued to fall sharply. Wikipedia.org notes that PacWest Bank suffered a \$6.7 billion deposit withdrawal through March 20, which subsequently increased by another \$1.8 billion.

- First Horizons, with assets of \$89 billion in 2022, whose shares began to fall after the merger with Toronto-Dominion Bank was cancelled, and also amid the collapse of First Republic Bank.

- Western Alliance Bancorporation, with assets of \$67 billion in 2022, with a share price drop of 82%, before trading was halted.

- Valley National Bancorp, with assets of about \$64 billion in 2022.

- Pacific Premier Bancorp, with assets of \$21.6 billion in 2022.

- Citizens Business Bank, with assets of \$14 billion in 2022.

From what has been described above, we can conclude that it was not a systemic crisis, but rather a banking panic, with the epicentre located, dominantly, in the USA, where the area of collapse included in the epicentre, in March, 3 banks (2 failed and one voluntarily liquidated), extended in May, also in the USA, to one more, modest in importance (in total, intermediated assets of approx. \$550 billion, including the FRB), and the international impact of the panic was marginal, involving the takeover of a troubled Swiss bank (which rather

coincidentally collapsed during this period) and share price depreciations of some banks. Eloquent in appreciating the minor international impact of the March banking panic is the IMF's April 2023 forecast, so after the event, which lowered the outlook for global GDP growth by just 0.1%, from 2.9% to 2.8% (IMF, 2023), but announced its concerns about the stability of the financial system.

4. Particularities of the banking turmoil in March 2023

a. Information and social media. The key issue in deciphering the March 2023 banking panic is information and social media (Tett, 2023). During the 1997-1998 crisis there was little information, as with previous banking crises, the media community was isolated. The media, on the one hand, delivered little information to the public, because they had little access to it, the connection to the banks was rare, and behind-the-scenes information was inaccessible. On the other hand, the media of 25-30 years ago, technologically speaking, meant a time lag between when information was received and when it reached the public. In other words, already filtered information was slow or delayed in reaching the public. In addition, information had to be verified from several sources and rumours were not spread by the media. A decade later, during the global financial crisis of 2007-2008, there was more transparency. When banks like Northern Rock and Lehman Brothers failed, viewers could see the panic on their TV screens. The fear of losing money was transmitted from those already panic-stricken in the queue outside the bank, to those sitting in their armchairs in front of the TV who, thinking of the losses, perhaps put their clothes on and joined the crowd outside the bank. But the information continued to be insufficient. There was a lot of information that the public and the media didn't have access to, being open only to a limited segment of market professionals; it still couldn't be found freely, on the internet. For example, if you wanted to know the price of a credit default swap (or CDS, a financial product that essentially shows whether investors fear a bank is about to collapse), you had to call the bankers. Now, you have it all not "one click away", as one bank puts it, but in your pocket, where your smart phone is. And in your phone you have a whole host of apps, bringing information about financial markets near you at any time, you can watch live press conferences of bankers, with or without problems, theirs or the organisations they run, including monetary authorities or the opinions of specialists, the opinions of those like you, affected by the risks of certain banking investments, etc., quickly, in real time, when events take place. But all this, while making the financial consumer a very informed player, increases the risk of contagion, and fuels the panics sweeping the financial markets out of nowhere.

However, the banking markets are not transparent enough and the information is not complete, not all-inclusive. Perhaps, in the next financial crisis...what if banks displayed their deposit withdrawal volumes online and in real time?

Gillian Tett (2023) exemplifies the case of Silicon Valley Bank:

"A key moment in [the bank's] downfall occurred on Thursday, March 9, when CEO Greg Becker held a conference call with its largest investors and depositors. On social media the news spread quickly. "Greg told everyone that we shouldn't panic because the bank won't fail if we all stick together," said one of SVB's biggest depositors. To be sure, similar conversations had taken place in previous crises, but few customers knew about them. Not so in 2023. Reports of Becker's words leaked out on the internet, fuelling the run on bank deposits. Within hours, about \$42 billion - or a quarter of SVB funds - were gone. In the 1984 banking crisis, by comparison, it took depositors a full week to withdraw half their funds from Continental Illinois when that lender failed."

From here the analysis has to bifurcate into two directions; the speed of the spread of information, the speed with which those affected act to protect themselves and the speed with which the authorities act to prevent panic and contagion in the markets.

b. Speed of information dissemination. "Cyber waves" are natively much faster. All it takes is for a certain piece of information or rumour to appear on social media, for it to be quickly rolled out, to pass quickly from one to another, to be enriched, adjusted or even transformed. Certainly the above information first affected Silicon Valley Bank depositors, because they were the subject, but the information also reached customers of other banks with vulnerabilities, validated by regular published or only suspected reports. So they quickly reached the depositors of Signature Bank, Silvergate Bank, First Republic, Credit Suisse, each of whom had been wrong: they had a high proportion of customers whose accounts exceeded the authorities' insured limit of \$250.000, mismanaged interest rate risk, managed large portfolios of long-dated bonds whose price was falling, had large exposures in real estate that increased the risk of deposit run-off, or were scandal-plagued and poorly managed banks where depositors were already withdrawing their funds. Such contagion and deposit withdrawals had erupted before in financial crises, but the speed of contagion and deposit withdrawal was different from anything in the past. Now the accelerator had been information spreading at breakneck speed on social media and mobile banking services that speed up deposit transfers, leaving troubled banks without a response.

c. The speed with which those affected act to protect themselves. Traditionally, panicked depositors, frightened by the failure of a bank, go to the bank counters, stand in line so that maybe they will manage, before the collapse of the bank, to withdraw the money from their accounts. Fortunately for depositors, and unfortunately for banks, they are now permanently connected to their accounts, the computer, through Internet banking applications, and especially the mobile phone, which is always in the hand of each person and which we use several times a day, allows us to see our account situation quickly, and, additionally, to quickly save the deposits we have at a bank. All it takes is for one rumour to appear and, without having to go to the bank counter, we can liquidate our deposits quickly and transfer them to other, safer banks. Even if costs arise, we save the bulk of our liquidity. Previously, when depositors had to liquidate their deposits physically at the traditional counter, it was tied to working days and the daily schedule at the bank. Now, mobile banking or internet banking apps work 24 hours a day, seven days a week. No one is in front of us, the queue, where the depositor used to sit to withdraw their money, is gone. It's just them and the bank's computer. Fast, real-time, instant payment systems complete the process. The run on bank deposits is so fast that bank management is almost unable to carry out the process, and slow decision-making systems in banks react late. The lifeline almost disappears.

d. The speed with which authorities act to prevent panic and contagion in the markets. The same source (Gillian Tett, 2023) notes that "*SVB managers have asked the Federal Reserve (Fed) for help in meeting depositors' withdrawal requests. But unlike mobile banking, which operates 24/7, the Fed's facilities are open only a few hours a day.*" So although, "*by Friday morning, a total of \$100 billion was scheduled to go from the FED to the SVB*", the SVB was already dead. Overnight, when the saviour was asleep. Regulators reacted vigorously, with \$100 billion, but their response was a 20th century classic. Regulators had forgotten about the Internet, mobile banking channels and the rapid spread of information on social media. A plea to regulators would be to move central bank processes into the 21st century and keep them operational 24/7 in a crisis. "Speed, in everything," says a frequent TV ad.

e. Culture and financial education. Two words about the bank customer of today: they are no longer the customer of a few decades ago, their financial culture is getting richer

by the minute. They are inundated with financial messages, trained to react to them and, more importantly, they have experience, a "banking history", as the banks say. They have a history, richer or poorer, of consuming banking products. And this is happening with more and more consumers of banking products. The ordinary person in the street, even if they have a modest income, is increasingly a consumer of banking products. It is part of 'financial inclusion', as the financial literature puts it. So they know how to select banking products, between those that have good or negative effects on their wealth, and they also know how to choose the periods of time when to use them. They're much more financially savvy, so they're a quick adopter of innovations (internet banking, mobile banking, payment apps, etc.), but their behaviour remains the same as it was in the past, they haven't changed much. They know that flight is healthy. So at the slightest foreboding bad rumour, they will quickly transfer their deposits to an alternative.

f. Another observation related to the March 2023 turmoil, but also to past banking crises, would be that regulators are not visionary enough, fail to monitor the present banking problem or the models used are not forward-looking enough. Regulators are sticking to the problems that arose during the last crisis. For example, the press in the weeks following the turmoil noted that stress tests of banks by the Fed in the run-up to the March 2023 banking panic used low interest rate scenarios and none examined the impact of large interest rate increases. That's because the previous financial boom of 2007-2008 left bankers worried about credit risk because of widespread mortgage defaults, the trigger for that crisis. This was the risk that regulators and bankers were monitoring before the March 2023 turmoil. In the global financial crisis of 2007-2008 it was similar. When bankers were asked after the crisis in 2008 why they had not monitored mortgage default risks in previous years, they said their risk managers were worried about hedge funds and corporate lending, because in the previous financial crisis, the 1998 crisis, it had all started with the implosion of a large hedge fund (Long-Term Capital Management) and the dotcom bubble, the first internet and online trading crisis, which broke out in 2000, had generated losses from bank lending to corporations. So the past is not always a good guide to future risks, and rules to fix the last crisis and create "safety" sometimes mean we miss new risks.

g. From the analysis of the causes of the banking turmoil in March 2023, it also emerged that what is considered "safe" by theory or by regulators is not really very safe, and sometimes it can even be dangerous. Gillian Tett (2023) recounts that, in the late 1990s, Japanese bankers were making real estate loans because they seemed "safer" than corporate loans, as house prices had always risen. Similarly, bankers affected by the 2008 financial crisis said that one of the reasons they ignored the dangers surrounding subprime mortgages was that these instruments had triple-A, very safe credit ratings, so risk managers paid little attention to them. The same was true of the March 2023 SVB turmoil. The trigger was the long-term Treasury bond portfolio, which was supposed to be the safest asset of all possible placements. So safe that regulators everywhere are encouraging (or perhaps better to call it, forcing) banks to buy them. Or, as Jamie Dimon, head of JPMorgan, noted in his annual shareholder letter, "*ironically, banks were encouraged to hold very safe government securities because they were considered very liquid by regulators and had very low capital requirements*" (Tett, 2023).

5. Conclusions

The bottom line is that there was no systemic banking crisis in March 2023. Rather, it was a banking panic, with the epicentre located, dominantly, in the USA, where the area of collapse included 3 banks at the epicentre in March (2 failed and one voluntarily liquidated), extended in May, also in the USA, to one more, modest in size (in total, they intermediated

assets of approx. \$550 billion, including the FRB), and the international impact of the panic was marginal, involving the takeover of a troubled Swiss bank (which rather coincidentally collapsed during this period) and share price depreciations of some banks. Eloquent in appreciating the minor international impact of the March banking panic is the IMF's April 2023 forecast, so after the event, which lowered the outlook for global GDP growth by just 0.1%, from 2.9% to 2.8% (IMF, 2023), but announced its concerns about the stability of the financial system.

Regulators could also strengthen capital buffers, especially for smaller lenders, protect deposits more or make it harder to withdraw them at critical times for banks. More work could also be done on the transparency of information about banks, to counterbalance consumer reaction to news, especially fake news, which increases the risk of leaving the bank and leads to contagion.

After the turmoil erupted, policymakers in Washington said they would look into the causes that led to the March 2023 demise of US banks. This could mean forcing medium-sized US lenders to comply with Basel rules on bank capital. Officials also spoke of the need to reassess bank liquidity rules, which would mean new obligations for banks to be able to withstand deposit withdrawals much more quickly, as recent bank collapses have been driven by the high rate of flight of customer deposits in the digital age.

It is possible that in the coming years we will also see the regulation of digital deposit withdrawals from banks, as they are a risk factor for banking systems.

In the same context of reducing the new risks facing contemporary banks, stress tests on banks should address new themes such as the behaviour of bank customers, the degree of their digitalisation, the size of individual deposits and the extent to which they are insured, and explore measures to protect the system against them, although they acknowledged that this will be difficult.

At the same time, regulators and policymakers should be wary of the impact of interest rate risk on financial intermediaries when the impact comes through the bond portfolio channel, which has been shown in the recent turmoil to torpedo bank balance sheets and trigger runs on deposits. I believe that even the monetary policy authorities, when they decided to increase interest rates, at very high levels and, more importantly, in a very short timeframe, did not realise and did not consider the impact of their measure on banks. Government bonds and even treasury bills will certainly no longer be considered "safe" and low risk, and banks will almost certainly have to provision them.

But the solvency issue also applies to large banks with "international relevance" and "international assets", banks to which Basel III bank capital rules applied. This is because banks such as Silvergate, SVB, although not of "international relevance", could generate cross-border effects, their collapse had the potential to destabilise the financial system, causing collapses in the value of bank shares in many financial markets and numerous contagion concerns.

It should also be seen to what extent the deposit insurance limits of €100,000 in Europe and \$250,000 in the US are still appropriate in the current situation, especially as Washington regulators, although not forcing all banks to adhere to Basel III bank capital rules (after 2018), in order to calm the markets and all collapsing bank depositors, have decided to guarantee all deposits, regardless of their value.

Finally, we would add that as early as March 2023, after the outbreak of the turmoil, the Basel Committee on Banking Supervision, which sets global banking regulatory standards, announced that it would examine whether additional rules are needed in the wake of recent banking collapses.

References:

1. Baron, M. and Dieckelmann, D., 2022. *Beyond Boom and Bust: Causes of Banking Crises, 1870–2016*. Cornell University, European Central Bank.
2. Board of Governors of the Federal Reserve System, 2023. *Recent Developments*. [online] Available at: <www.federalreserve.gov> [Accessed 16 April 2023].
3. Boyd, J., De Nicolò, G. and Loukoianova, E., 2009. *Banking Crises and Crisis Dating: Theory and Evidence*, IMF Working Paper, Research Department. [pdf] Available at: <<https://www.imf.org/external/pubs/ft/wp/2009/wp09141.pdf>> [Accessed 16 April 2023].
4. Caprio, G. and Klingebiel, D., 1996. *Bank Insolvencies Cross-country Experience*, Policy Research Working Paper 1620, The World Bank Policy Research Department & Finance and Private Sector Development Division. [pdf] Available at: <<https://documents1.worldbank.org/curated/en/761051468739458460/pdf/multi-page.pdf>> [Accessed 16 April 2023].
5. Cox, J., 2023. Banks take advantage of Fed crisis lending programs. 16.03.2023. [online] Available at: <<https://www.cnbc.com/2023/03/16/banks-take-advantage-of-fed-crisis-lending-programs-.html>> [Accessed 16 April 2023].
6. Demirgüç-Kunt, A. and Detragiache, E., 2002. Does Deposit Insurance Increase Banking System Stability? An Empirical Investigation. *Journal of Monetary Economics*, 49, pp.1373-1406.
7. Ensign, R.L., 2023. First Republic Lost \$100 Billion in Deposits in Banking Panic. *Wall Street Journal*, April 24, 2023 [Accessed 16 April 2023].
8. European Central Bank, 2023. *Media*. [online] Available at: <www.ecb.eu> [Accessed 16 April 2023].
9. HotNews.ro, 2023. O nouă criză bancară? BCE este încrezătoare cu privire la rezistența financiară a zonei euro. *Finanțe – Bănci*, 26 Martie 2023. [online] Available at: <https://economie.hotnews.ro/stiri-finante_banci-26164364-noua-criza-bancara-bce-este-increzatoare-privire-rezistent-a-financiara-zonei-euro.htm> [Accessed 16 April 2023].
10. Illien, N. and Hirt, O., 2023. Credit Suisse warns of more losses, drawing regulatory attention. 09.02.2023. [online] Available at: <<https://www.reuters.com/business/finance/credit-suisse-logs-worst-annual-loss-since-global-financial-crisis-2023-02-09>> [Accessed 16 April 2023].
11. International Monetary Fund, 2023. *World Economic report. A Rocky Recovery*. [online] Available at: <<https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>> [Accessed 16 April 2023].
12. Kindleberger, C.P. and Aliber, R.Z., 2015. *Manias, panics and crashes: A history of financial crises* (7th ed.). Palgrave Macmillan.
13. Laeven, L. and Valencia, F., 2018. Systemic Banking Crises. IMF Working Paper, Strategy, Policy, and Review Department, WP/18/206.
14. Minsky, H., 2011. *Cum stabilizăm o economie instabilă*. București: Publica.
15. Pereira Pedro, C., Ramalho, J.J.S. and da Silva, J.V., 2018. The main determinants of banking crises in OECD countries. *Rev. World Econ.*, 154, pp. 203–227. [online] Available at: <<https://doi.org/10.1007/s10290-017-0294-0>> [Accessed 16 April 2023].
16. Reinhart, C.M. and Rogoff, K.S., 2009. *The Aftermath of Financial Crises*, Working Paper, 14656. Cambridge: National Bureau of Economic Research.

- [online] Available at: <<http://www.nber.org/papers/w14656>> [Accessed 16 April 2023].
17. Romer, C.D. and Romer, D.H., 2015. *New Evidence on the Impact of Financial Crises in Advanced Countries*. NBER WORKING PAPER SERIES, Working Paper 21021. Cambridge: National Bureau of Economic Research. [pdf] Available at: <https://www.nber.org/system/files/working_papers/w21021/w21021.pdf> [Accessed 16 April 2023].
 18. Saini, M., Nishant, N. and Lang, H., 2023. Silergate Capital shares sink as crypto-related deposits plunge by \$8 bln. *Reuters, Future of Money*, 5.01.2023. [online] Available at: <<https://www.reuters.com/technology/silergate-capitals-crypto-related-deposits-plunge-fourth-quarter-2023-01-05/>> [Accessed 16 April 2023].
 19. Schularick, M. and Taylor, A., 2012. Credit Booms Gone Bust: Monetary Policy, Leverage Cycles, and Financial Crises, 1870-2008. *American Economic Review*, 102/2, April.
 20. Tett, G., 2023. What I learnt from three banking crises, *Financial Times*, 6 aprilie 2023. [online] Available at: <<https://www.ft.com/content/b0865633-82f2-4a49-ae0e-3bc0d1087a31>> [Accessed 16 April 2023].
 21. Wallerstein, E., 2023. Crypto Banks Borrow Billions From Home-Loan Banks to Plug Shortfalls. *The Wall Street Journal*, apud Wikipedia, 2023 *Global banking crisis*, 2023.
 22. Wikipedia, The Free Encyclopedia, 2023. 2023 Banking Crisis, www.wikipedia.org, 14 May 2023. [online] Available at: <https://en.wikipedia.org/wiki/2023_global_banking_crisis> [Accessed 16 April 2023].
 23. Wikipedia, The Free Encyclopedia, 2023. Credit Suisse, www.wikipedia.org, 20 May 2023. [online] Available at: <https://en.wikipedia.org/wiki/Credit_Suisse#cite_note-82> [Accessed 16 April 2023].
 24. Wikipedia, The Free Encyclopedia, 2023. Signature Bank, www.wikipedia.org, 19 May 2023. [pdf] Available at: <https://en.wikipedia.org/wiki/Signature_Bank> [Accessed 16 April 2023].
 25. Wikipedia, The Free Encyclopedia, 2023. Silicon Valley Bank, www.wikipedia.org, 18 May 2023. [pdf] Available at: <https://en.wikipedia.org/wiki/Silicon_Valley_Bank> [Accessed 16 April 2023].
 26. Wikipedia, The Free Encyclopedia, 2023. Silergate Bank, www.wikipedia.org, 6 May 2023. [pdf] Available at: <https://en.wikipedia.org/wiki/Silergate_Bank> [Accessed 16 April 2023].

THE IMPACT OF PERSONALITY ON THE CAREER OF HUMAN RESOURCES

Associate Professor, Ph.D., Liliana – Victoria GHERMAN

"Constantin Brâncoveanu" University of Pitești,
Faculty of Management Marketing in Economic Business Braila,
E-mail: liliana.gherman@yahoo.com

***Abstract:** There are many factors that influence the professional career of the individual and at organisation level. Individual factors can include personality, life experiences, expectations and medium and long-term goals. Organisational factors relate to labour market conditions, organisational types, selection, performance evaluation of human resources and activities undertaken for career planning in each organisation. Career is analysed and researched through the lens of personality elements, qualities and characteristics that influence career choice. Personality is an individual's way of organising themselves according to temperament, abilities and character.*

***Keywords:** organisation, human resources, professional career, personality.*

***J.E.L Classification:** O15.*

Career management of employees in organisations is about achieving a balance between the needs of staff, expectations of the work itself, their potential and aspirations.

Career management differs from one employee to another. Thus, the elaboration and implementation of an employee career development plan will be based on an employee evaluation programme that is as accurate as possible a picture of the employee's potential.

Therefore, in any organisation there must be career management that plans and shapes the progress of each individual in line with organisational needs assessments and the individual performance, potential and preferences of its members (M. Armstrong, 2003). It is in a permanent interdependent relationship with the other human resource management activities.

The importance of career management is emphasized in career planning and employee performance evaluation is one of the necessary conditions for career development. Human resource planning is concerned not so much with forecasting vacancies as with identifying the potential of human resources and the conditions and qualifications needed to fill those vacancies, and performance appraisal is carried out not so much to fundament decisions regarding remuneration as to identify employees development needs. The international dimension of career management should also be taken into account, relating to the career planning and development of those employees working, or about to work, abroad.

Career management is the **process of designing and implementing strategies and plans that enable the organization to meet its human resource needs and individuals to set their career goals** (Klatt L.A., Murdick R.G., Schuster F.E., 1985).

Career management plans and shapes the progress of each individual within an organization of any type in accordance with organizational needs assessments and the individual performance, potential and preferences of its members (M. Armstrong, 2003). It is in a permanent interdependent relationship with the other human resource management activities.

Michael Armstrong believes that **career management plans and shapes the progress of individuals within an organisation, both in line with organisational needs assessments and the individual performance, potential and preferences of its employees** (M. Armstrong, 2003). In his view, career management is concerned with providing opportunities for individuals to progress and develop their careers while ensuring that the organisation has the necessary talent flow. The elements of career management are provided by learning and development opportunities and career planning (M. Armstrong, 2006).

Thus, the main objectives of career management are:

- to promote a career development policy in line with the organisation's business purpose, individual needs and aspirations;
- integrating individual needs and aspirations with organisational needs and objectives;
- meeting organisational needs for development and enhancing the positive, favourable image of the organisation;
- identifying and retaining the best employees or those with certain prospects by meeting their professional needs and aspirations in the short and long term;
- developing career plans;
- guiding and supporting competitive employees to achieve personal goals in line with their potential needs and aspirations and their contribution to the organisation;
- helping employees to identify the skills and qualities needed for the jobs they are applying for and for future jobs;
- achieving mutual future benefits for both employees and the company, etc.

Effective career analysis is a particularly complex process, which requires the identification of assessment criteria. These criteria are interlinked in different ways for each individual and involve understanding at both individual and organisational level. Career effectiveness is closely linked to organisational performance and influences it to a large extent.

Although there are many characteristics of career effectiveness, according to human resources management practice, the most important criteria for assessing career effectiveness are:

- *employee career performance;*
- *human resources career attitude;*
- *career adaptability to different situations in the organisation;*
- *career identity.*

From an organisational perspective, career performance is very important because of its direct link to organisational effectiveness, i.e. performance. Salary size and seniority often reflect the extent to which the individual contributes to organisational performance.

At the same time, the organisation should not lose sight of other aspects that relate to how employee performance assessment is reflected in the motivational system used by the organisation and pursued by the individual:

- ◆ the extent to which the performance assessment and reward system reflects the job performance of each employee. If the organisation does not have the capacity, or does not want to give certain rewards, then the employee does not receive a reward that reflects their career performance.
- ◆ although the organisation is interested in employee performance, sometimes employees are unwilling or unable to achieve it. There may be situations where the employee is performing below their professional capacity. In these situations, the employee may have other, non-job-related interests, such as health, family, extra-career concerns, etc.

In terms of career attitudes, this is about how each person perceives and evaluates their own career. Those who adopt positive career attitudes also have a positive perception and evaluation of their career. People with this type of attitude are usually well integrated into the organisation and are involved in all the activities required by the jobs they occupy. Positive career attitudes can be supported by the opportunities that arise, opportunities that should match the skills, interests and values of each individual.

Career adaptability involves the application of recent knowledge, skills or qualifications and technologies in the pursuit of a career, as a result of the many changes and developments in today's professions and occupations. If a person does not show career adaptability and does not acquire the new skills, or knowledge, required for the job, he or she may face premature plateauing and even exclusion from the organisation. It should also be taken into consideration that there are advantages to adaptability on both sides, as the organisation is concerned to meet this criterion of effectiveness and thus allocates significant financial and material resources to the training and development of its employees.

Regarding the career identity, it can be said that this criterion for assessing career effectiveness has two components:

- ◆ the extent to which individuals are aware of their future interests and aspirations, and personal value systems;
- ◆ the extent to which individuals perceive their own lives in relation to time and its passage.

However, ensuring a suitable career for employees can also pose a number of problems, namely (Nicolescu O., 2004):

- ◆ if a suitably trained employee is repeatedly put forward for promotion and each time rejected, they may begin to feel that they have reached an end point in their career, or that they are at a point in their career where opportunities for promotion are very limited, which may lead to a reduction in the effectiveness of their work or a move to organisations where their position is superior to their previous one;
- ◆ if an employee is promoted to a higher position without proper justification, through appropriate qualifications or experience, this can have negative effects. Employees interested in promotion to that position will not find a logical explanation, may feel demotivated and even leave the organisation;
- ◆ because there is no immediate possibility of promoting an employee, nor is the employee's desire to transfer to another post satisfied, because the line manager is of the opinion that the employee's capabilities or qualities are appropriate for the post;
- ◆ some employees, bored and frustrated, give up trying to develop professionally or to make the most of their potential, even though they have real opportunities.

There are also negative aspects of career management:

- ◆ inadequate feedback to employees about career development opportunities within the organisation;
- ◆ a low level of concern in the organisation for the promotion of human resources;
- ◆ avoidance of transfers, although justified;
- ◆ lack of encouragement for career development of well qualified employees and prolonged retention in existing positions;
- ◆ absence of any form of support for those employees where the potential for promotion is not identified;
- ◆ low concern for human resource development opportunities;
- ◆ marginalisation or even exclusion of those employees who do not follow the organisation's career development models.

The career does not have a straight trajectory, it can be considered a labyrinth rather than a road. Career management is a response to the need for increased and sustained attention from both individuals and organisations to build an appropriate career that meets professional development needs.

Competency management has received increasing attention in recent years from both theorists and practitioners in the field of human resource management. Career success

increasingly depends on individual skills and the development of the personal abilities required for a particular job. The human resources approach from a competency management perspective is generally specific to developed countries and, in particular, to the American management system (C. V. Marinaş, 2010).

In Romania, there is also an emphasis on developing job-specific professional skills in both public and private institutions.

Human Resources specialists consider professional competence an important element of planning, job requirements, recruitment, evaluation, reward, motivation and employee development. Competence management therefore generates positive consequences both at organisational and individual level.

In a broad sense, **occupational competence** is *"the ability to perform the activities required in the workplace to the quality level specified by the occupational standard"* (G. Căprărescu, D. G. Stancu, D. L. Ştefan, G. Aron, 2013). According to another view, **professional competence** is *"the ability to meet the objectives of the field of work as well as one's own objectives"* (I. Verboncu, 2002). **Occupational competence** also encompasses "knowledge and skills, in addition to attitudes, behaviours, work-related habits, abilities and personal characteristics" (I. Verboncu, 2002). **Personal competencies** are *those actual and potential personal capabilities that are valued, both by management - as a system of behavioural requirements and reward offer towards members of an organisation or job applicants - and by staff (applicants or members of the organisation) - as a system of behavioural offer and reward requirements.*

Professional development and career are close in perspective, the former referring to the acquisition of useful knowledge in relation to both current and future positions, and the latter to the succession of positions, in ascending order of prestige, through which the employee passes in an orderly fashion, according to an established system within an organisation.

This reflects an approach to the professional problem from the individual's perspective, while the notion of staff development reflects an approach from an organisational perspective. It uses concepts such as training and education in relation to the first activity and concepts such as professional development, career development or staff development.

The organisation must take into account the importance of the human factor, the responsibility of the whole management and the objectives set in this functional area.

The organisation must take into account the importance of the human factor, the responsibility of the whole management and the objectives set in this functional area.

An effective human resources policy should have the following goals:

- integration of human resources management into the overall management of the organisation;
- integration of the human resources strategy into the organisation's development strategy;
- ensuring a climate in which the potential of each employee is exploited.

Career development can be well achieved by linking career planning with career management.

Every organisation has as an objective in its human resources strategy the selection of competent and motivated candidates, but in order to integrate them well, **the personality of the employee needs to be taken into account.**

Each person is differentiated by a unique personality, but nevertheless some common characteristics can be observed.

So, a good knowledge of our personality and those we interact with, as well as positive behavioural modelling are imperative when aiming for long-lasting relationships based on trust, harmonious communication and living.

References:

1. Armstrong, M., 2003. *Human Resource Management: practice manual*. Bucharest: CODECS.
2. Căprărescu, G., Stancu, D.G., Ștefan, D.L. and Aron, G., 2013. *Human Resources Management*. Bucharest: Universitara.
3. Gangani, N.T., McLean, G.N. and Braden, R.A., 2004. *Competency-based human resource development strategy*. Academy of Human Resource Development Annual Conference, Austin, vol. 2, pp. 1111-1118.
4. Klatt, L.A., Murdick, R.G. and Schuster, F.E., 1985. *Human Resource Management*. Charles E. Merrill Publishing, A Bell Howell Company.
5. Marinaș, C.V., 2010. *Comparative Human Resource Management*. Bucharest: Economica.
6. Nicolescu, O., Plumb, I., Pricop, M., Vasilescu, I. and Verboncu, I., 2003. *Modern approaches in management and organisation economics*. Bucharest: Economica.
7. Nicolescu O., *Managers and human resources management*. Bucharest: Economica.
8. Verboncu, I., 2002. *Managers & Management*. Bucharest: Economica.

MIGRATION FROM BIHAR, INDIA: TREND, PATTERN, DURATION AND DESTINATION

Ph.D. Student, Kishlay KIRTI
Central University of South Bihar, India
E-mail: 01kishlay@gmail.com
Ph.D. Student, Raviranjana KUMAR
Central University of South Bihar, India
E-mail: r.ranjan95048@gmail.com
Ph.D., Rikil CHYRMANG
Central University of South Bihar, India
E-mail: rikilenator@gmail.com

***Abstract:** The census is one of the key sources of migration data that provide insights on internal, interstate and international migration; researchers have often ignored it in internal and international migration studies despite its usefulness. It is primarily used to explore interstate migration. With this understanding, this study uses census data of India to explore all three kinds of migration (internal, interstate and international) in the context of Bihar, an Indian state known for the large outflow of migrants (Sharma, 2005). The study uses the data on migration from the 1991, 2001 and 2011 censuses and provides insights into long-term migration behaviour. In that context, this study has explored the volume, streams, gender, origin, destination and reasons for migration. It also shows the implications of the bifurcation of the state on migration.*

***Keywords:** census, migration, internal migration, inter-state migration, and international migration.*

***JEL Classification:** F22, O15.*

1. Introduction

Migration is a common practice in India. One out of every three Indians is migrant (Census, 2011; Mistry, 2021). Most Indians migrate internally (one state to another), while a smaller yet significant number of people move beyond the international border. The main reasons for migration classified by the census-2011 are work/ employment, education, marriages, business, moving after birth, moving with a household, and others.

Past studies suggest large-scale out-migration from economically poor to economically prosperous states (or more well-off states). The most common feature of this migration is that they are employment-driven. Such migration is common in states like Bihar to Maharashtra, Gujarat, Punjab, Haryana, and Delhi (UT) (Keshri and Bhagat, 2012). Migration is vital from a demographic perspective; it alters the demographic composition of origin and destination. It affects the size, sex ratio, and labour force of a region; it increases the population at the destination and decreases at the source. Migration triggers the demand for amenities at the destination, which burdens the host government. This additional demand may raise the price of housing and other services. From a policy perspective, Indians are free to move and work within the geographical boundary of India (Keshri and Bhagat, 2012).

Migration management is a shared responsibility of the administrations of the origin and destination. Their commitment is to provide basic facilities for living and safety. During the recent Covid19 crisis, governments have ignored the migrants, becoming their country's most vulnerable citizens. The main reason for this plight condition of migrants was a poor understanding of the size and condition of migrants (Bhagat et al. 2020). This study attempts to understand the size and condition of out-migration from Bihar while there is little reflection on internal migration (migration within the state).

In India, there are three key sources of information on migration- (i) the Census of India, (ii) NSSO data and (iii) reports and studies based on separate data and methodology conducted by individuals and organizations. The first two are collected and compiled by the government departments. The latest census data is for 2011, while NSSO data is available for

2007-08. Similarly, individual reports have limitations as they report specific cases. The Census data is crucial for studying migration in India because it is a complete enumeration of the population, and many indirect methods can be used to analyze it. That ultimately helps in policymaking and managing the resources.

2. Context of out-migration from Bihar

Bihar, India's third most populous state, poses every feature of an underdeveloped state, such as lower per capita income, low HDI, poor infrastructure, and limited employment opportunities (Census, 2011). From an employment perspective, the economy of Bihar depends on agriculture, while in terms of contribution to the Gross State Domestic Product (GSDP), it is a service sector-driven economy (GOB, 2021).

This agrarian economy has disadvantages; the unequal land distribution makes the majority landless. In this condition, they have to work as agricultural labourers, providing limited income for their livelihood. Sometimes they move to other informal sectors that neither provide safety at work nor social security. During the lean season, they move out for work. These movements are generally beyond state borders and prefer well-off or prosperous states (Sharma, 2005; Kumar and Bhagat, 2012). This migration practice has a historical background. Bihar is one of those states that simultaneously suffer from flood and drought and has a poor industrial base. Even the farming sector on which the state rests has some disadvantages like smaller landholdings, poor irrigation, labour-intensive technique, absence of fair pricing and lack of capital (Deshingkar et al., 2006; Kumar and Bhagat, 2012). Due to this, the state could not benefit from the Green revolution like other states such as Punjab and Haryana.

Further, the commercialization of farming hurt the farmers of Bihar. They could not compete with the farmers of other states. Many farmers moved to Punjab and Haryana to work as agricultural labourers (Kumar and Bhagat, 2012). All these settings have set a permanent migration corridor to prosperous Indian states. In contemporary Bihar, the migration of skilled and educated people is expected. They move in search of better employment, higher wages, and better living; Bihar generally lags—this aspect of migration results from the revolution in information and communication technology. Further, the ease in visa norms has also promoted international migration from the state.

3. Methodology and Data

The current study provides insight into the trend, stream, and reasons for out-migration from Bihar since 1991. The study utilizes migration data from Census 1991, 2001, and 2011. The study provides a comparative understanding of trends and streams of migration over the census period.

The reasons for migration are similar, as reported by the Census of India. The census of 1991 captured data on natural calamities as a reason for migration, but this reason was abandoned in subsequent censuses. The census captures migration on two bases- (i) Place of Birth and (ii) Place of Last Residence (POLR). The place of birth as a reason for migration can be confusing as a person might have migrated many times. So this study has focused on the second type of migration that deals with the usual place of residence.

This study captures the migration from Bihar before and after its bifurcation into two states-namely, Bihar and Jharkhand. That shows a sharp increase in migration in 2001 because internal migration became interstate migration.

4. Level and trends of migration

The level and trend of out-migration from Bihar give a broader understanding of the migration behaviour of the state's people. The census data on POLR in table 1 shows the total population, total migrants, internal migrants, interstate migrants and international migrants of Bihar during the 1991, 2001, and 2011 censuses. Total migrants (consists all forms of migration) constituted 33.36 per cent of the total population in 1991 which declined to 24.67 per cent in 2001 but increased to 26.17 per cent in 2011. Most people have migrated internally, i.e., within the state; 31.46 per cent of the total population migrated internally in 1991, declined to 22.47 per cent in 2001, and increased to 24.71 per cent in 2011. Comparatively, a small population migrated to other states; in 1991, the share of interstate migration in the total population was 1.59 per cent, which increased to 1.95 in 2001 but declined to 1.07 per cent in the 2011 census. A similar trend was found in the case of international migration from Bihar. In 1991 the share of international migrants was 0.29 per cent which declined to 0.25 per cent in 2001, but it increased to 0.38 per cent in 2011.

Table 1: Migrant population of Bihar

Census Year	Total Population	Total Migrants	Internal Migrants	Interstate Migrants	International Migrants
1991	6,45,30,554	21529825 (33.36)	20303129 (31.46)	1031566 (1.59)	190130 (0.29)
2001	8,29,98,509	20480976 (24.67)	18649877 (22.47)	1619031 (1.95)	212015 (0.25)
2011	10,40,99,452	27244869 (26.17)	25728400 (24.71)	1111954 (1.07)	398592 (0.38)

Source: Compiled from Census of India, 1991, 2001, and 2011.

It is important to note that in 2000, Bihar was bifurcated into two states, namely-Bihar and Jharkhand. This bifurcation has significantly affected the migration pattern of Bihar. The total migration, internal migration and international migration declined in the 2001 census, but interstate migration increased because the newly formed state hosted many Bihari migrants who were once internal migrants.

5. Streams of Migration

Migration streams are of four kinds- Rural to Rural (RR), Rural to Urban (RU), Urban to Rural (UR) and Urban to Urban (UU). Table 2 shows these four migration streams of Bihar as a percentage of total migrants in that census. Internal migration is highest in all three censuses, and rural to rural migration stream is highest, followed by rural-to-urban. In 1991 rural to rural migration was 77.72 per cent, which declined to 72.27 per cent in 2001 and 70.78 per cent in 2011. In 1991, the urban-to-rural migration was 1.81 per cent of total migrants, and urban-to-urban was 3.02 per cent; in 2001, this figure was 1.62 and 0.63 per cent, which increased in 2011 to 3.19 and 4.76 per cent. A similar pattern is seen in interstate migration; however, its proportion is small compared to internal migration. These classifications are not available for total migrants and international migrants, so total-to-rural and total-to-urban is used here. International migration is on the rise in Bihar. The census data shows that most international migrants have migrated to rural areas.

Table 2: Streams of Migration, Bihar

Census	Place of the last residence	Place of enumeration	Percentage of different stream			
			Total	Internal	Interstate	International
1991	Rural	Rural	NA	77.72	2.32	NA
	Rural	Urban	NA	11.39	1.27	NA
	Urban	Rural	NA	1.81	0.30	NA
	Urban	Urban	NA	3.02	0.86	NA
	Total	Urban	16.81	14.47	2.15	0.18
	Total	Rural	83.19	79.82	2.64	0.70
2001	Rural	Rural	NA	72.27	5.72	NA
	Rural	Urban	NA	6.54	0.64	NA
	Urban	Rural	NA	1.62	0.39	NA
	Urban	Urban	NA	0.63	0.63	NA
	Total	Urban	11.75	1.38	1.38	0.13
	Total	Rural	88.25	6.53	6.53	0.91
2011	Rural	Rural	NA	70.78	2.34	NA
	Rural	Urban	NA	7.34	0.32	NA
	Urban	Rural	NA	3.19	0.59	NA
	Urban	Urban	NA	4.76	0.59	NA
	Total	Urban	14.60	13.45	0.96	0.18
	Total	Rural	85.40	80.98	3.12	1.28

Source: Compiled from Census of India, 1991, 2001, and 2011.

NA: Not Available; Census does not classify this stream of migration

5.1. Gender and Migration

Table 3 shows the role of males and females in migration. The table shows that in Bihar, females are more migratory. This result is visible in the three censuses (1991, 2001 and 2011) and three forms of migration (internal, interstate and international). However, the internal migration of males is increasing over time, while others have a similar pattern over time.

Table 3: Migration of Males and Females in Bihar

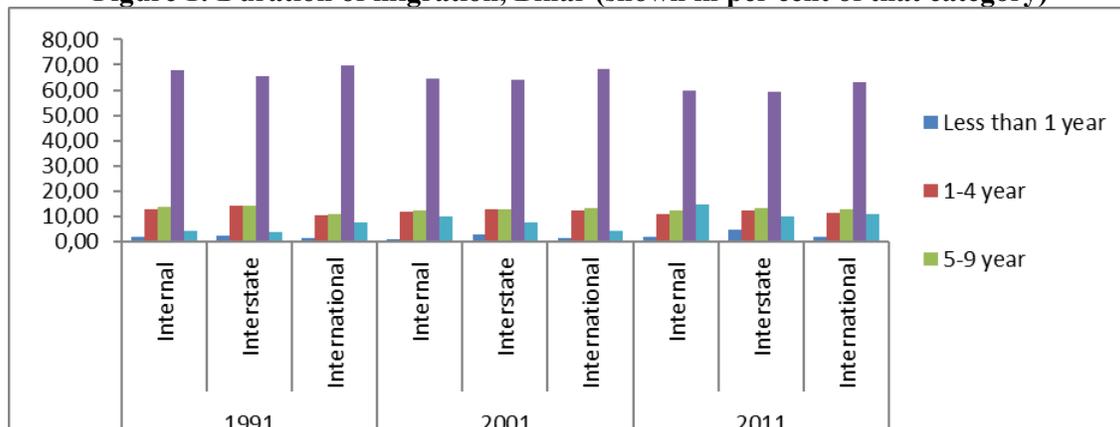
	Internal		Interstate		International	
	Male	Female	Male	Female	Male	Female
1991	9.55	84.75	1.33	3.45	0.14	0.73
2001	9.79	81.26	1.09	6.8	0.09	0.94
2011	13.32	81.11	0.6	3.47	0.15	1.3

Source: Compiled from Census of India, 1991, 2001, and 2011.

5.2. Duration of Migration

Figure 1 shows the migration duration during the three censuses for internal, interstate and international migration. It shows that most people have migrated for a longer duration. Among them, more than 60 per cent have migrated for ten years and above; this composition is favourable in internal, interstate and international migration. Around ten per cent of people have migrated for either 1-4 years or 5-9 years, while the least have migrated for less than one year.

Figure 1: Duration of migration, Bihar (shown in per cent of that category)

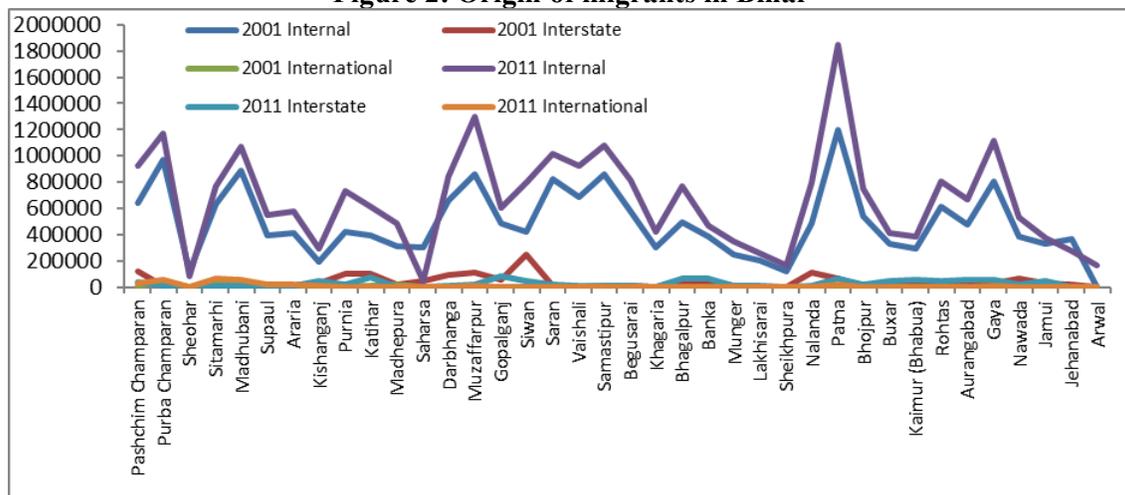


Source: Compiled from Census of India, 1991, 2001, and 2011.

5.3. Origin of Migrants

Information about the origin of migrants gives essential insight into migration. There are 38 districts in Bihar, all of which contribute to migration in different proportions. Figure 2 shows the contribution of these districts in internal, interstate and international migration during the 2001 and 2011 censuses. The census of 1991 has been abandoned to bring uniformity to the study. This census was conducted when Jharkhand was a part of it. The figure shows that more prominent districts of Bihar, such as Paschim Champaran, Purbi Champaran, Sitamarhi, Darbhanga, Samastipur, Patna and Gaya, have higher internal migration during the 2001 and 2011 censuses, while interstate migration is higher from Paschim Champaran, Purnia, Darbhanga, Siwan, Bhagalpur, Nalanda, Patna and Nawada districts. A small yet significant proportion of the people of Bihar migrate internationally. These migrants mostly come from Madhubani and Sitamarhi districts.

Figure 2: Origin of migrants in Bihar



Source: Compiled from Census of India 2001 and 2011.

6. Destination of Migrants

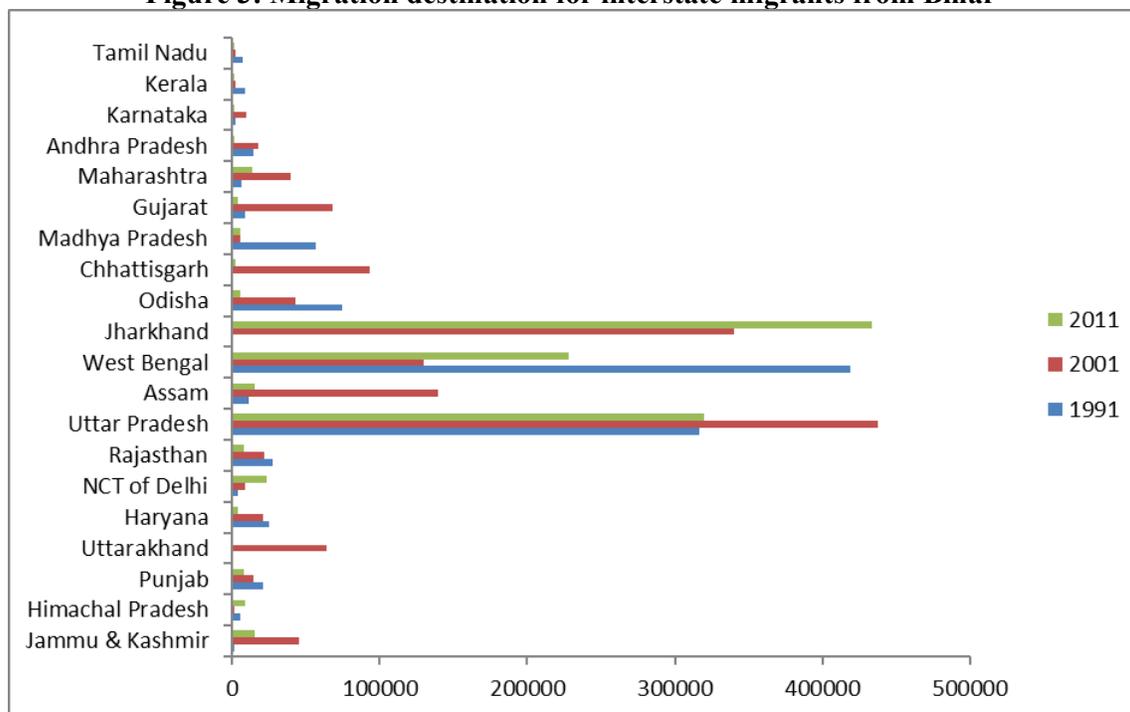
The destination of migrants has always brought curiosity to researchers and policy-makers. It affects the destination in multiple ways, like altering the demand and supply of

locally available resources and the size of the population and labour forces. This section explores the destination of internal, interstate and international migrants. Most people who migrate internally in Bihar do not cross their district, while a smaller number of such migrants go to other districts. Inter-district classification of migration has not been studied here.

6.1. Interstate migration

Figure 3 shows the destination of interstate migrants from Bihar during the 1991, 2001 and 2011 censuses. It shows the 20 states that Bihari migrants most prefer. In 1991 most preferred destinations of Bihari migrants were West Bengal, Uttar Pradesh, Odisha and Madhya Pradesh. In 2001 three new states, namely Jharkhand, Chhattisgarh and Uttarakhand, were carved out from Bihar, Madhya Pradesh and Uttar Pradesh. The Census 2001 data shows that newly formed states are hosting many migrants from Bihar while the share of their sister states has declined. In this census, Uttar Pradesh, Jharkhand and Assam hosted the highest number of Bihari migrants. In the 2011 census, Jharkhand and Uttar Pradesh hosted the highest number of Bihari migrants. It is worth mentioning that the states like Gujarat, and Maharashtra, known as industrial hubs and host many migrants from various Indian states, including Bihar, witnessed fewer migrants from Bihar.

Figure 3: Migration destination for interstate migrants from Bihar



Source: Compiled from Census of India 2001, and 2011.

6.2. International migration

International migration is less common among the Bihari migrants. Only a smaller fraction of migrants go beyond the country's international border. The census provides information about numerous countries in Asia, Europe, Africa, North and South America and Oceania, where people of Bihar migrate. However, their share in most countries is minimal, even less than a thousand. In the 1991 census, out of the total internationally migrated people,

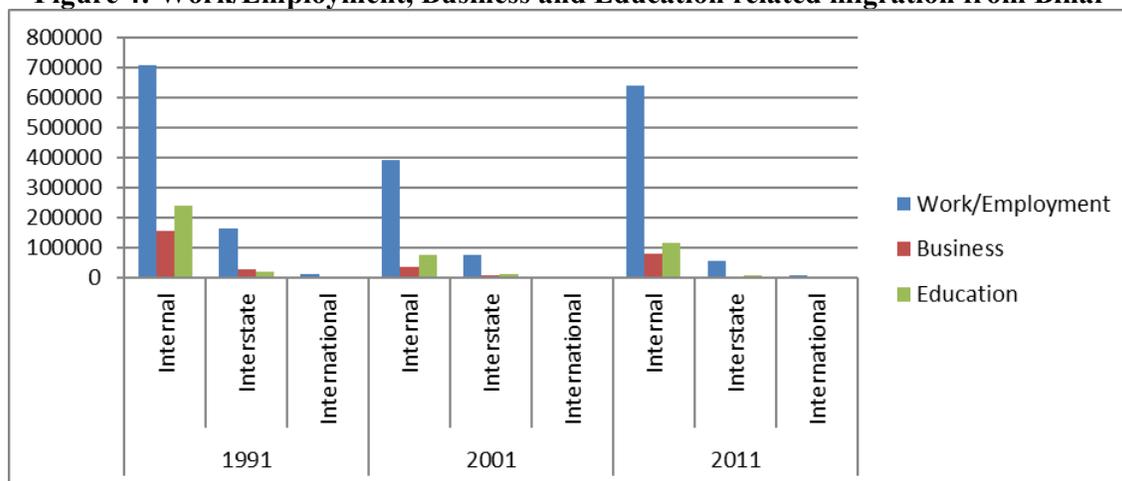
71.91 per cent were in Nepal, 12.42 per cent in Bangladesh and 3.81 per cent in Pakistan. In the 2001 census, this figure was 71.80 per cent, 4.72 per cent and 0.52 per cent, respectively, while the latest census shows that 65.35 per cent of total migrants are in Nepal, while the share of Bangladesh and Pakistan is 1.47 per cent and 1.68 per cent, respectively.

7. Reasons for Migration

The reasons for migration can be numerous, but the census classifies it in seven broad terms. They are work or employment, business, education, marriage, moved after birth and moved with household, while all other reasons are classified as others. In the 1991 census, natural calamities were also considered one of the reasons for migration, but in the later period, this reason was not recorded. According to the census, marriage causes more migration than any other thing. In the 1991 census, 85.31 per cent of internal, 61.33 interstate and 73.69 per cent of international migration occurred due to marriage. In the 2001 census, little change was observed; now, 78.48 per cent of internal, 74.43 of interstate and 81.82 per cent of international migration is caused by marriage, and in the 2011 census, it became 75.03 per cent, 73.26 per cent and 79.87 per cent respectively.

Other than marriage, work/employment, business and education are the main reasons for migration from Bihar. Figure 4 shows migration caused by it. It shows that work and education are the leading cause of internal and interstate migration. In 1991 the employment and education-related migration was highest, which declined in 2001 and shows growth in the 2011 census but remains below the 1991 level. Business-related migration is frequent in internal migration. The causes of international migration are not visible in the figure because the number of migrants in international migrants is meagre. And less than 5 per cent of international migrants move for the following reason.

Figure 4: Work/Employment, Business and Education related migration from Bihar



Source: Compiled from Census of India 2001 and 2011.

8. Conclusions

Bihar is one of India's most populous states, also known for poverty and backwardness. This has been reported as a cause of out-migration from the state. The current study also finds a similar result in people migrating within and beyond the state border. The reasons for migration are employment, education and businesses, while marriages remain one of the reasons for migration associated with the local culture in which females move to the

inlaws' house. This study covers the three censuses, 1991, 2001 and 2011, in which Bihar has witnessed multiple changes, such as the state's bifurcation into two states. This bifurcation has implications for migration. Jharkhand, the newly formed state, became one of the most preferred out-migration destinations of Bihar in the 2001 census, and in the 2011 census, it became the host with the highest number of migrants. The share of international migration in the total migration from the state is low; interestingly, most people are migrating to Nepal, a less developed country. Bihar also contributes the highest number of Indian migrants in Nepal. This migration is often explained in terms of geographical proximity and similar values (Kirti, 2021).

The findings of this study can be used to make effective regional policies for development. Policy-maker can improve transportation and communication in the most likely destinations for the smooth movement of people further, and they can help with remittance sharing with households for regional development.

References:

1. Bhagat, R.B., Reshmi, R.S., Sahoo, H., Roy, A.K. and Govil, D., 2020. The COVID-19, migration and livelihood in India: challenges and policy issues. *Migration Letters*, 17(5), pp.705-718.
2. Census of India, 1991. *Migration Tables*. Registrar General and Census Commissioner of India, Government of India, New Delhi.
3. Census of India, 2001. *Migration Tables*. Registrar General and Census Commissioner of India, Government of India, New Delhi.
4. Census of India, 2011. *Migration Tables*. Registrar General and Census Commissioner of India, Government of India, New Delhi.
5. Deshingkar, P., Kumar, S., Chobey, H. K. and Kumar, D., 2006. *The role of migration and remittances in promoting livelihoods in Bihar*. London: Overseas Development Institute.
6. GOB, 2021. *Economic Survey of Bihar*. Finance Department, Government of Bihar, Patna.
7. Keshri, K. and Bhagat, R.B., 2012. Temporary and seasonal migration: Regional pattern, characteristics and associated factors. *Economic and Political Weekly*, 47(4), pp.81-88.
8. Kirti, K., 2021. Migration between India and Nepal: An Appraisal. *Demography India*, 50(1), pp.163-173.
9. Kumar, N. and Bhagat, R.B., 2012. Out-migration from Bihar: Causes and consequences. *Journal of Social and Economic Studies*, 22(2), pp.134-144.
10. Mistri, A., 2021. Migrant Workers from West Bengal since 1991. *Economic & Political Weekly*, 56(29), pp.21-26.
11. Sharma, A.N., 2005. Agrarian Relations and Socio-Economic Change in Bihar. *Economic and Political Weekly*, 40(10), pp. 960–972.

THE RAILWAY TRANSPORT SYSTEM AND ITS IMPLICATIONS IN THE ECONOMIC DEVELOPMENT

Daniel DANECI-PATRAU

Maritime University of Constanta, Romania

E-mail: danusidenima2@yahoo.com

Carmen Elena COCA

“Stefan cel Mare” University of Suceava, Romania

E-mail: zelesneacarmen@yahoo.com

Romeo BOSNEAGU

“Mircea cel Batran” Naval Academy of Constanta, Romania

E-mail: romeo_bosneagu@yahoo.com

***Abstract:** A rail transport system is deemed in most countries a prerequisite for the overall economic development and, in this respect, considerable resources are allocated especially towards the railway installation and improvement, but also for the human resources system efficiency and optimization. Railways usually have an asset value that makes up a significant part of the national wealth and the rail sub-sector should bring a significant contribution to the GDP. It is therefore important and appropriate that this asset be managed professionally and that an increasing number of railway professionals are now encouraged to get involved in this activity. To clarify the impact transport has on the economy, several important research directions also strongly intercorrelated had been laid out in this paper: economic development, material goods production and distribution, influence on prices.*

***Key words:** rail management, transport, economy, prices.*

***JEL Classification:** L91, L92, O18.*

1. Introduction

Expanding the business activity internationally implies augmenting the complexity of its unfolding actions, and, above all, developing and diversifying the human resources management tools that they use to manage the cultural, economic, social, political and institutional variables influencing their activity at the level of each country. All these developments call the reconsideration of the human resources' strategic role at organizational level, people being deemed the main competitive advantage they possess. Management has a multidisciplinary character, integrating components belonging to the study subject of other areas: economic theory, mathematics, psychology, sociology, statistics, materials and information technology, etc. In particular, rail management aims to maintain and improve the existing rail network in order to allow its uninterrupted use via commercially exploiting traffic in an efficient and safe manner. Transport activity in all its forms is one of the most complex segments of the economy, but also a factor of great influence on the quality of life, hence the current concerns of the international bodies are oriented towards measures designed to develop effective transport systems compatible with the environment.

In agreement with a reputed specialist in said field, we feel that a country's economy is composed of three major sectors of activity: the primary sector founded on agriculture and farming products manufacture; the secondary sector, represented by industry along with all its subcomponents and the tertiary sector, respectively services. As a whole, the transport activity is part of the tertiary sector of the economy and entails moving the items entrusted to be transported, from a pick-up point to a drop-off point (Jaba, 2007, p. 56).

Regardless of their type, transports have the main purpose of meeting human needs in what regards traveling, serving the national and international economies, ensuring economic exchange, goods and people transportation. As a rule of thumb, the transportation demands concerning the economy and population are met by several technical transport systems: rail, road, water, air, pipelines. In the specialty literature in our country, the transport

system is defined as the totality of all infrastructures embodied by transit means and terminals, means of transportation and control systems that allow people and goods to be physically moved in due course in order for them to participate in a timely manner in a certain activity (Iancu, 2003, p. 87). The specific features of the railway transport activity carried out in our country are determined by the structure of goods transported, the diversity of the transport relationships, the means of transport used and their ownership form. The transport systems, being distinct and competitive, are organized as to contribute to fulfilling a combined transport on different distances: rail-road, sea-road, sea-rail, air-road, rail-by pipeline. The five basic modes of transport (rail, auto, maritime, air and pipelines) together with the necessary infrastructure and vehicles form the transport system, being unable to operate outside it.

2. Literature review

For a long time, it has been thought that the rail transport is the most complex and well-organized transport system, but with the skyrocketing development of the auto and air transport, things have been reconsidered, yet without questioning the importance of railways in the general transport system. This importance imposes the current and future need for the railway transport modernization in order to cope with the competitive pressure from the other modes of transport (Dăneci-Pătrău, 2013, p. 113).

In the specialty literature, the railway transport system is analyzed as a set of processes that attempt to optimize the overall performance of the railway operation management (Tănăsuică, 2003, p. 96). The effects of rail transport are important because this mode of transport is an essential component of the economic and social development process, often absorbing an overwhelming proportion of national budgets. The strong correlation between the mileage completed and gross domestic product also adds its contribution to the developing of an economy via facilitating trade, both nationally and internationally; thus people's access to employment, education, health care and other services is improved.

In order to analyze the main activities and resources of the rail transport system, it is important to define the rail transport. In a narrow sense, it is a special type of service, in the sense that it can not be stored or preserved, being performed under special conditions when it has to deal with times of high demands. In the broad sense, railway transport means any movement of individuals and goods by use of rail vehicles by transport operators on the railway infrastructure (Șimuț, 2001, p. 87).

The main activities of the railway transport are:

- The commercial operation of the transport of goods and persons.
- Maintenance and repair of the railway infrastructure.
- The commercial exploitation of the auxiliary patrimony.

One challenge for the rail management is to identify the best way to use railways as a mechanism to support economic and social development by effectively controlling the management of all types of railway activities. Rail management aims to maintain and improve the existing rail network in order to allow its permanent use through traffic commercial exploitation in an efficient and secure manner.

Railway infrastructure is technically defined as the assembly of elements required for the movement and handling of the rolling stock, railway station buildings with all related facilities, railway yards, bridges, tunnels, signaling, telecommunications and voltage installations meant for the railway transport (Buciumanu, 2002, p. 65). Railways are a salient element of railway infrastructure. Their most widely used classification is: Current rails, located between railway stations and rails within stations, which fulfill several roles for: circulating, maneuvering, connecting or pending.

Public or private rail transport operators are national companies or companies licensed to carry out public transport or transport for their own benefit of freight or passengers using the capacity of the railway infrastructure. In this regard, railway operators bear a railway infrastructure usage charge called IUC (TUI), which becomes its own income arising from the activity performed on behalf of the national company managing the railway infrastructure.

3. Main activities and resources of the rail transport system

The main purpose of transports is meeting human needs regarding traveling, serving national and international economies by ensuring the movement of goods, economic exchange. In the general trend of increasing railway operation speed, high-speed technology has been developed to overcome the nature, topography and social conditions. Recently, concerns about energy saving and environmental issues related to atmospheric pollution with gas emissions from cars (especially CO) associated to greenhouse effect resulted from ozone depletion, acid rains and life-traffic injuries have accelerated trends to revitalize rail transport, creating the future momentum needed to develop high-speed rail between major cities and for the dense population rails.

The studies drafted have made it clear that the most environmentally friendly means of transport is the railways. As a result of the review and protocol signed in Kyoto (10.12.1997), the European Union has agreed to reduce by 2023 its CO emissions by 18%. Comparing the energy consumption of different means of transport indicate a consumption 3.5 times higher for passenger car transport and double for the maritime transport as opposed to passenger rail transport (Șimuț, 2001, p. 47). Regarding freight transport, the energy consumption for trucks is 8.7 times higher than in rail transport. The advantages of the railways take into account the transport of non-fuel electrified lines. In this respect, the case of Romania is presented, where the electrified network accounts for 33% of the total network, and the rail transport on the electrified network is 54% of the total transport. If the total land area occupied by the means of transport is taken into account, there results a ratio of 5% of the total area of the country; the area occupied by railways is 0.5%, compared to 4.5% covered by roads.

With a density of approximately 97 inhabitants/ km², Romania is among the middle-populated countries, hence additional land surfaces are difficult to obtain. From this point of view, the railroad requires a relatively small area compared to other means. A modern railway with two electrified lines has a width of only 14 meters, while a four-lane motorway with similar transport capacity requires an area double in size (31.5 m). To this advantage the impact on the environment must also be remembered, being less intense in the case of railroads compared to roads, as these have layers of non-environmental friendly materials applied.

Nowadays, about 120,000 people travel daily by train all over the country. Every day, around 200,000 tons of goods are delivered to the economic agents by railway. These realities make the Romanian Railways the seventh railway network in Europe in terms of traffic volume. Why do all these people prefer traveling by train to using their own cars or other means of road, aerial and maritime transport? Because they all know that the CFR safety indicators are superior to those of many other European railway administrations. For the Romanian railway operators, the safety of travelers and merchandise integrity are the most important aspects, sometimes prevailing in the face of timely deliveries or other transport services quality assessment parameters.

To identify the rail transport rank among the rail transport system in Romania, the evolution of the significant quantity indices related to railway infrastructure was assessed,

their situation being illustrated in table 1.

The railway rolling stock consists of locomotives, railroad cars for goods and passengers transport. The locomotives provide the traction of freight and passenger trains on the traffic sections, as well as their maneuvering in stations. The total of locomotives in the track record represents the inventory park for locomotives. The diversity of freight requirements has led to the emergence of several types of railcars with constructive and functional characteristics adapted to the nature of goods: uncovered, covered, clean, tank car, platform, and all these types of freight railcars together with passenger cars form the fleet inventory of railcars.

Table 1. Quantity indices related to railway infrastructure

INDICES	M.U.	1998	2012	2022
Total length of the rail network	km	11348	11057	10820
Unfolded length of rails	km	22567	22247	20347
Electrified rail length	km	3680	3885	3971
Percentage of electrified rails	%	32.4	35.1	36.7
Rail network density	lkm/1000 km ²	47.8	46.7	45.8
No. of railway stations		1419	1100	978

Source: CFR SA National Company website, www.cfr.ro

The railway network length index in our country presents, at the end of 2022, 36.7% of electrified rails of the railway network total length, constantly increasing since 1998 and a network density of 45.8 lkm / 1000 km² decreasing in recent years due to the network total length mitigation, which amounted 10820 km rail. At the same time, due to the rail transport activity cutback, the number of railway stations has fallen by one third over the last 25 years, from 1419 stations in 1998 to 978 functional units at the end of 2022.

Rail transport is the second mode of transport in the economy after road transport, as per the *transported goods* index, annually carrying about 50 million tons of goods out of the total of approximately 380 million tons, which represents approximately 13.4% of the market for freight transported in Romania, as you can see in Table 2. The market share of rail freight transport in Romania decreased from 17.1% in 2012 to 13.4% in 2022.

Table 2. Evolution of the market quota for the main freight transport types

Goods transported, of which: (%)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
SNTF Freight	17.1	20	19.7	18.8	18.5	15.9	13.6	11.8	10.9	9.7	7.8
Private transport operators (OTF)	0	0	0.2	0.7	0.7	2.5	3.4	3.9	4.2	4.9	5.6
TOTAL railways	17.1	20	19.9	19.5	19.2	18.4	17	15.7	15.1	14.5	13.4
Road	75.8	73.5	73.7	73.7	74.3	74.6	75.6	77.6	78.8	79.5	77.8
Maritime	5.94	4.94	4.59	4.87	4.32	4.87	5.25	4.39	3.82	3.77	5.95
Aerial	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.3	0.2	0.2	0.4
Pipelines	1.06	1.36	1.71	1.83	2.08	2.03	2.05	2.01	2.08	2.03	2.45
TOTAL	100										

Source: Ministry of Transport and Infrastructure website, www.mt.ro

During the last three years freight and rail transport has decreased steadily. The causes of these declines lie in the general decrease of the large enterprises production, the closure or liquidation of some economic agents due to the financial crisis, the fast shift of others to road transport with the activity dispersal to a large number of partners in small quantities and last but not least the decrease in family incomes due to budget cuts. The direct consequence of the traffic decrease was the drastic cut of the railway companies collections, accentuated by the fact that the CFR tariff increases did not keep up with the inflation rate, especially for passenger tariffs.

Specific to the rail transport system is the existence of large masses of moving commodities containing significant amounts of kinetic energy. As the tendencies in rail transport speak of increasing tonnages and speeds, in order to ensure transport safety, the principle prohibiting two or more railway vehicles on the same traffic sector is respected.

4. Economic aspects of transports

Of the basics needed for a fundamental economic growth, we mention three of the most important: the transport system, a convenient source of energy and an efficient communication system. Since economic development implies large-scale production as well as its distribution within the area, operations that are not possible without effective transport, the conclusion to be drawn is that transport lies at the foundation of economic activity.

4.1. Transport and economic development

Market economy, characterized by the commodity exchange development, which involves transporting it from producer to consumer, depends on the availability of transport services. In areas of the world where transport is primitive, populations live at the level of a subsistence economy. They depend on the food resources, clothing and other products designed for living, provided by neighboring areas that produce only for local consumption, and the exchange of goods is totally random.

During the periods preceding the use of mechanical power, most of humanity depended on subsistence agriculture; exceptions to the rule were:

- Countries in the northern hemisphere, in the areas adjacent to the sea, where the shoreline configuration provides numerous natural shelters (ports) and the water courses were navigable also towards the interior of the continent, offering limited access; the progress of navigation allowed the development in these areas of the first buds of the market economy.
- Euro-Asian countries on the former “Silk Road” route, using camels for transport, created conditions for trade; the goods brought on camels from the Far East were taken over from the ports of the Near East by ships and brought to Europe.

At present, however, there are many areas of the globe (in Asia, Africa, South America) far away from the communications means, which for this reason have remained economically and socially far behind the favored areas. The economic development process is one of interaction between economic components; transport activity improvement stimulates progress in the economy, which is reflected in the transport field through its enhancement. The link between transport and communications is, at its turn, very close; the invention of telegraphy in 1840 has greatly accelerated the progress of rail transport, ensuring rigorous control of trains departures and arrivals. Phone and radio are two other great inventions of mankind that have contributed to the development of maritime and airborne transits. Wireless telephony through satellites got also applied in transport. It is clear that between transport and telecommunications there has always been a continuous mutual stimulation.

4.2. Transport and production

Transport has a fundamental role in the production process, which consists of changing the location of material goods in space and time. The classics of science have noticed that these processes can create value and obviously a certain kind of utility. Two notions that characterize transport in general were defined: the usefulness of place and the usefulness of time.

Usefulness of place or value creation by changing location of an object refers to the fact that raw material or the sub-assemblies of certain products are worth it only if they are moved to the place where they are needed. Production requires constant collection of various material goods, to a certain extent, in a certain place, in order to achieve a particular product. Transport is the factor that makes it possible to carry out production.

The usefulness of time refers to the fact that for the smooth running of production it is not enough that materials be moved from one place to another; it is very important that this is done in a certain time, optimal for the production process. Because, for various reasons, transport was not always done smoothly within the pre-established time, it was necessary to build up the stocks (storage of material goods near the place of use), which allowed the unfolding of production in conditions of transport discontinuity, but also of discontinuities specific to production.

In conclusion, large-scale production depends on the usefulness of place and time that characterizes transports. This is true for both large products and lighter and high value products that require special transfer conditions.

In the same order of ideas, transport contributes decisively to:

- Stimulating regional specialization, by ensuring the division of labor in space, regionally, but also globally; resources, climate, people's expertise vary from area to area, which makes the productive process to be characterized by great diversity; transport enables each region to specialize in the production they achieve best, which will lead to quantitative and qualitative benefits under minimum costs.

- The location of productive activities by allowing for the costs transport operations so that they remain minimal.
- Determining production costs by taking into account the unavoidable expenses related to the transport activity.

4.3. Transport and distribution

Large-scale production must be accompanied by a mass distribution that moves products to different markets at a sustained pace. And in this area, transport creates usefulness of time and space. Every product acquires its value if moved to where it is desired and at the moment it is desired. Stocking of goods makes it possible to avoid over-saturation of markets and thereby maintaining prices, which is particularly important in seasonal production.

In this context, it can be concluded that the transport:

- Ensures the means to distribute the production outcome, making regional expertise efficient.
- Determines the increase of the sales markets.
- Sets the costs of product distribution operations, which will be part of the final value.

4.4. Transport and prices

As shown, transport operations are related to certain costs, which are part of the final product value.

The rapport of transport costs varies in relation with the product characteristics; hence transport plays an important role for the price as follows:

- Ensure the stability of market prices; most varieties are not produced in equal amounts of time; in the absence of an adequate transport system, these products would be in excess in certain areas and at certain times of the year, which would add up to a substantial fall in price, while in other areas and time periods lack of products would be registered. The presence of a well-established transport system leads to balancing the supply of products in space and time with beneficial effects on price fluctuations.
- Supports promotion of low prices on the market by encouraging trade; the most productive areas, with the lowest prices (excluding transport costs), determine market prices; the other areas must align to these prices if they do not want to lose market share.
- Determines the value of land use, so that, by placing them further away from the transport routes, they obviously have a lower value and lower chances to acquire an important productive use.

The same appreciation can be extended over to any natural resource value that grows as it is closer to the major transport routes.

5. Conclusions

During the last three years freight and rail transport has decreased steadily. The causes of these declines lie in the general decrease of the large enterprises production, closure or liquidation of some economic agents due to the financial crisis, the fast shift of others to road transport with the activity dispersal to a large number of partners in small quantities and last but not least the decrease in family incomes due to budget cuts. The direct consequence of the traffic decrease was the drastic cut of the railway companies' collections, accentuated by the fact that the CFR tariff increases did not keep up with the inflation rate, especially for passenger tariffs.

Due to the lack of necessary funds, the public railway companies had to discharge some of the employees, limit expenses to the basic necessities for operation, reduce maintenance, repair and investment values in order to keep it steady. The price paid for this steadiness was, however, recorded in significant technical losses, resulting from the heavy wear and tear of all railway facilities, and while the share of budget revenues for transport infrastructure maintenance under the total revenues decreased, the degree of traffic safety on rail simultaneously declined, incurring direct consequences in the volume of services rendered.

References:

1. Buciumanu, I., 2002. *Elemente manageriale în sistemul de transport feroviar*. Cluj-Napoca: Studia.
2. Dăneci-Pătrău, D., 2013. *Cerințe actuale și de perspectivă ale managementului resurselor umane în transportul feroviar*. Iași: Sedcom Libris.
3. Iancu, G., 2003. *Principii de economie și management în transporturi*. București: Editura Fundației România de Măine.
4. Jaba, O., 2007. *Managementul producției și operațiunilor*. Iași: Sedcom Libris.
5. Ministry of Transport, 2005. *Ordinul nr. 1816/2005 privind aprobarea regulamentului pentru circulația trenurilor și manevra vehiculelor feroviare* [Order no. 1816/2005 on the approval of the Regulation for the movement of trains and the handling of railway vehicles], publicat în "M. Of. al României" nr.1064/28.11.2005, art.190.
6. Ministry of Transport, 2023. Master Plan transport. [online] Available at: <<http://www.mt.ro/web14/strategia-in-transporturi/master-plan-general-transport/documente-master-plan1/613-documente-master-plan-general-de-transport>> [Accessed 28 February 2023].
7. National Company CFR SA, 2023. Menu. [online] Available at: <<http://www.cfr.ro/index.php/ct-menu-item-125?id=4116>> [Accessed 22 February 2023].
8. Șimuț, V., 2001. *Managementul transportului feroviar*. București: ASAB.
9. Tănăsuică, I., 2003. *Tehnologia activității stațiilor de cale ferată. Volumul II*. București: Feroviară.